

FINANCIAL TIMES

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Russia tries to cut its bill

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Internet

Move out of the slow lane

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Indian Energy

Reformers face uphill task

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World Business Newspaper <http://www.FT.com>

WEDNESDAY JANUARY 21 1998



The FT 500, our annual guide to corporate rankings around the world, will appear TOMORROW.

The 48-page guide includes the world's top 500 companies by market capitalisation, together with the top 500 in Europe, the UK, the US and Japan.

Shares in sector boosted SmithKline and AHP in \$125bn drug merger talks

By Daniel Green and William Lewis in New York

SmithKline Beecham of the UK and American Home Products yesterday confirmed they were considering a merger to create the world's largest pharmaceuticals company.

The deal would create a business with annual sales above \$26bn, more than 110,000 employees and a combined market value of about \$125bn.

The announcement sent a wave of speculation through drug company stocks, pushing up prices of shares in Glaxo Wellcome, Zeneca and Nycomed Amersham in the UK and Merck, Lilly and Warner-Lambert in the US.

SmithKline shares were up 7 per cent at one point, but fell sharply to end down 3p at 740p as AHP rose 15 per cent or 10½ to \$81½ when Wall Street opened.

The higher AHP's shares, the smaller the slice of any merged company that would go to SmithKline shareholders.

Shares in both companies have risen strongly in recent days since news of the talks was published in the Financial Times.

Both said yesterday they would make no further comment until talks were complete.

"There can be no assurances that any such transaction will be agreed or as to what the terms of such a transaction would be," added SmithKline.

Talks are set to take weeks rather than days as negotiating teams grapple with a series of issues ranging from who would run the new company to the potential costs of legal action against AHP for side-effects apparently caused to people who took Redux, its now-withdrawn slimming drug.

The talks may have been partly prompted by the uncertain future leadership of AHP, whose chief executive, Jack Stafford, has been ill. A merger would enable SmithKline's younger management team to take over, said Marjola Haggard, pharmaceuticals analyst at Deutsche Morgan Grenfell in New York.

The companies would be able to achieve "significant" cost savings - perhaps over \$1bn a year - by combining manufacturing and pruning research and development spending, she said.

Steven Gerber, analyst at CIBC Oppenheimer, said combining the two companies would result in a "good philosophical alignment".

He said investors believe both companies keep a tight control on costs and have experience in successfully concluding large acquisitions. But a full merger would run against recent trends in the sector. It would be the first large deal since the 1996 creation of Novartis from the merger of Swiss rivals Ciba and Sandoz, and the US-Swedish merger of Pharmacia and Upjohn.

The P&U deal was followed by a series of profit warnings and helped push mergers off the industry agenda, especially when set against the strong growth most companies achieved in 1997. AHP missed out on much of that growth because it was forced to withdraw Redux, which had been one of the most successful drugs in pharmaceuticals history.

SmithKline had prescription drug sales of \$8.15bn in 1996 while AHP reported \$7.92bn, but sales are much higher when over-the-counter medicines and animal health products are taken into account.

AHP's adviser is Morgan Stanley Dean Witter.

Lex, Page 18; Background, Page 18; Observer, Page 17



Israel prime minister Benjamin Netanyahu and US president Bill Clinton in the White House yesterday. Their meeting was said to have "gone extremely well". Netanyahu offers troops pull-out. Page 8

Jospin rules out further rise in benefits for unemployed

By Robert Graham in Paris

Lionel Jospin, France's Socialist prime minister, yesterday ruled out further increases in unemployment benefits to help the jobless who have staged politically embarrassing protests in the past month to highlight their poverty.

Mr Jospin spoke to parliament on the eve of a television address aimed at heading off the well-orchestrated campaign by the jobless. If their demands were met in full, he said, it would immediately add another FF60bn (\$9.8bn) to the budget. He thought this would be an impossible extra cost.

The unemployed are demanding a rise in their benefits to bring them into line with the minimum basic wage. This would mean an extra FF1,500 paid out monthly to each person, bringing their monthly entitlement to about FF75,000. The protests have already prompted the government to pledge an additional FF1bn.

The main jobless associations said their campaign would continue as long as the government remained inflexible. "If the government persists with this stance, it means they have listened to none of our complaints and underestimate the strength of our movement," they said.

Mr Jospin insisted in a welfare policy statement to parliament that his government's position was not simply conditioned by budgetary considerations. It concerned the delicate relationship between those living off social security and those employed at minimum wages. "We do not want a society dependent upon [state] assistance, but one based upon work and productive activity," he said. By pointing out the



Prime minister Lionel Jospin addressing parliament yesterday

cost of complying with all the demands of the unemployed, Mr Jospin left some space to introduce extra funding for specific allowances.

Robert Hue, leader of the Communist party, which has four ministers, found positive elements in Mr Jospin's policy statement. The Communists have recently embarrassed Mr Jospin by siding with the protest movement as well as being more openly critical of the government's commitment to the European single currency.

A tight budgetary position that could be further complicated by the Asian crisis is hampering the government's attempts to find more money for unemployment benefit. Any concession to the unemployed risks a knock-on effect as shown yesterday when primary school teachers went on strike. The strike was called to highlight pay differentials between two categories of teachers caused by reforms negotiated in 1989 when Mr Jospin was education minister.

This pay differential cannot be removed in the short term without heavy extra public spending.

Political rivalries, Page 2

WORLD NEWS

UK reviews offshore tax haven regulations

The UK government yesterday surprised the offshore centres of Guernsey, Jersey and the Isle of Man by launching a wide-ranging review of their financial systems. The review will look at laws, systems and practices for financial services regulation and company registration and the way they deter, investigate and punish financial crimes, including money-laundering. Page 16

UN agrees Iraq concessions
Chief UN arms inspector Richard Butler agreed to include outside experts at technical talks in an effort to persuade Iraq to co-operate with his disarmament mission. Page 8

Online music discolor
Record companies are bracing themselves for fresh battles with their artists about revenues from music sold and distributed digitally across the Internet. Page 18; Alice Rawsthorn, Page 8

Pope starts Cuba visit
Pope John Paul II starts an historic five-day visit to Cuba today surrounded by speculation about its potential political impact on the communist-ruled Caribbean island. Page 6; Editorial Comment, Page 17

Suharto seeks seventh term
President Suharto of Indonesia confirmed he would run for president in March, defying calls for his resignation amid a steadily worsening economy. Page 18; Observer, Page 17

Home off hook over arrest
The Italian parliament voted not to proceed with the arrest of Cesare Previti, the former defence minister in Silvio Berlusconi's 1994 government, who is facing corruption charges. The move defuses a potentially serious crisis for Romano Prodi's government. Page 2

Battle co-operation talks
Prime ministers from 12 Baltic basin states met tomorrow to develop plans for long-term co-operation less than a week after US president Bill Clinton endorsed the desire of Estonia, Latvia and Lithuania to join Nato. Page 2

Cover-up alleged over killing
Relatives of Turkish journalist Metin Goktepe, beaten to death two years ago, asked a court to investigate charges of a high-level cover-up. The state has charged 11 policemen for alleged involvement in his death.

Algeria bombs blast
A bomb exploded in a busy street in the Ben Aknoun district of central Algiers, causing casualties at a time an EU delegation was holding talks with government officials on the violence sweeping Algeria.

Romanians brood for reform
Both houses of the Romanian parliament are due to meet today for an emergency session which could decide the fate of the government and the Romanian reform process. Page 3

BUSINESS NEWS

French banks sign first private derivatives deal in euro currency

Dexia and Credit Local de France, French banks, announced the first privately negotiated derivatives agreement denominated in euros. Page 19

Allianz, German insurer, took a first step towards divesting its stake in Deutsche Bank in a DM25bn (\$US1.1bn) convertible bond issue. Page 21

Adam Opel, German subsidiary of General Motors of the US, announced a package of investments, job cuts and wage curbs to improve efficiency. Page 21

Hongkong Telecom, the territory's dominant telecoms operator, agreed to surrender its monopoly on international services six years earlier than expected in exchange for a compensation package including HK\$500m (\$US670m) in cash. Page 19; Lex, Page 18; HK Telecoms joins modern era, Page 22

Microsoft said it would amend contracts with internet service providers in Europe to meet concerns from the European Union's anti-trust authority. Page 6

Kirch, Bertelsmann and Deutsche Telekom, German media groups, face scrutiny from European Union competition authorities over plans for a pay-TV alliance. Page 2

Gdynia shipyard, which showed a profit last year for the first time since 1990, is emerging as Poland's sector leader. Page 23

Sony Computer Entertainment was warned by Japan's Fair Trade Commission to halt anti-competitive practices aimed at maintaining prices of PlayStation games machines. Page 7

J.P. Morgan, the US international bank, is to designate more than 10 per cent of its loan exposure to South Korea, Malaysia and Thailand as "non-performing". Page 19; Lex, Page 18; Strong final quarter, Page 20

Digital Equipment, US computer group, is to launch micropayment technology to allow internet users to purchase information in small increments for a fraction of a cent. Page 6

Kia Motors, the South Korean carmaker, is considering an alliance with General Motors of the US in manufacturing car components. Page 23

Cyberview, which is developing key parts of Malaysia's hi-tech international business hub, said it would borrow M\$1.6bn (\$US\$80m) for infrastructure. Page 7

Lloyd's of London, the insurance market, has won UK government backing for its proposals for external regulation. Page 9

Mitsubishi Electric, Japanese electronics group, plans to offer international telephone calls from next month by leasing lines from KDD, the international carrier. Page 22

Markets

STOCK MARKET INDICES		GOLD	
New York Composite	7788.59	New York Gold	329.8
London Composite	1573.08	London Gold	328.55
Europe and Far East	3008.34	COMMODITIES	
DAX	3237.21	Oil	1.8275
FTSE 100	3278.2	New York Wheat	1.24105
Nikkei	16,368.53	Wheat	1.1855
US Treasury Bonds		Wheat	1.1855
3-mth Treasury Bill	5.12%	Wheat	1.1855
Long Term	10.04%	Wheat	1.1855
Short Term	6.00%	Wheat	1.1855
OTHER MARKETS		Wheat	1.1855
US 3-mth Treasury	5.12%	Wheat	1.1855
US 10 yr Treasury	6.12%	Wheat	1.1855
US 30 yr Treasury	6.12%	Wheat	1.1855
US 10 yr Treasury	6.12%	Wheat	1.1855
US 30 yr Treasury	6.12%	Wheat	1.1855

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Barrels	16.120	Oil	1.8275	Oil	1.8275
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NEWS: EUROPE

EU looks into German pay-TV deal

By Emma Tucker in Brussels and Frederick Stüdemann in Berlin

Plans for a pay-TV alliance between the German media groups Kirch and Bertelsmann plus Deutsche Telekom are certain to face tough scrutiny after the European Union's competition commissioner confirmed yesterday he would open a full anti-trust investigation into the deal.

"We will be moving into a second-stage investigation," said Karel Van Miert. "I

think that was fairly clear from the outset."

The extended probe, expected to be announced formally over the next few weeks, will give the parties four months to suggest alterations to their plan to satisfy the Brussels regulators.

The process is likely to be particularly tense as less than four years ago Mr Van Miert took the rare step of blocking a joint venture involving the same companies. This was on the grounds that it would have created or reinforced a dom-

inant position in three separate markets - pay television, broadcasting, technology services associated with pay-TV and the market for cable network services.

This time, the companies say they have devised a formula for an open technological platform to which other parties would have access. The platform would be administered and operated by Deutsche Telekom, though using technology owned by the three companies.

Germany's cartel office

has written to Brussels claiming that this arrangement still poses a threat to competition. It warns of the threat of market dominance that arises from plans by CLT-ufa (in which Bertelsmann has a 40 per cent stake) to acquire stakes in Beta Research and Beta Digital, Kirch subsidiaries.

These, respectively, own the German licences to digital decoding technology and run a digital television broadcasting centre. In a separate agreement, the companies then plan to sell a

stake in Beta Research to Deutsche Telekom.

Mr Van Miert also confirmed that both of the recently announced global accountancy mergers involving Price Waterhouse and Coopers & Lybrand, and KPMG and Ernst & Young would face a full investigation by Brussels, adding that the two would be investigated "in parallel".

He also hinted that a potential case against Microsoft over contracts signed by the company with Internet service providers in Europe

was likely to be settled amicably. John Frank, director of law and corporate affairs for Microsoft in Europe, confirmed this.

Swiss prosecutors said yesterday they were unable to substantiate the suspicions of the Munich state prosecutor's office that the 1993 sale by Kirch of a package of films to a company in Switzerland had been conducted through a shell company. The Munich officials allege that the film sale was done as part of a tax evasion manoeuvre by Kirch.

Twist to French nuclear logic

French policymaking does not always proceed with the Cartesian logic that administrators would like us to think it does. Take nuclear policy, for instance.

The prime minister, Lionel Jospin, confirmed in a speech last June that the 11-year-old Superphénix nuclear reactor, the largest fast reactor ever built, was to be shut down. This was in keeping with a Socialist party election campaign pledge.

Mr Jospin justified the decision by saying that the nuclear industry should not "pursue projects which are excessively costly and have very uncertain prospects of success".

What the prime minister did not say was that France's other fast reactor - the older and smaller Phénix - was to be reopened after a break of three years. Yet this is what the government now seems to be on the verge of announcing.

The official explanation for this apparently contradictory position is that a tool is needed to conduct experiments that will help France to decide in 2006 how best to dispose of the waste from its extensive network of nuclear reactors. These generate about three-quarters of the country's electricity.

Some of these experiments can be conducted only in a fast reactor. With the government committed to closing the giant 1,200MW Superphénix, it follows that the reopening of Phénix, much smaller at 250MW and located at Marcoule in southern France, was necessary.

The initial attraction of such reactors was that they were capable, in theory, of "breeding" enough plutonium to supply their own fuel. But there is no reason why the technology should not be used instead to destroy plutonium - as well as other harmful byproducts of the nuclear industry known as higher actinides. It is this capability that the experiments will be designed to test.

It is almost certain that a decision to restart Phénix, which is about 25 years old and has in the past experienced significant technical problems, would be unpopular with France's environmentalist movement. This remains low-key by the standards of many other European countries, but has shown signs of gathering momentum.

From a technical viewpoint, however, it could be argued that Phénix is a better installation in which to carry out the experiments envisaged, since it is smaller and more flexible.

David Owen

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France agonises over unruly young

Growing urban violence is sharpening political rivalries

The burning of dozens of cars in French cities over the New Year has touched off a bout of national agonising over juvenile delinquency and urban violence.

The spectacle of more than 60 cars destroyed in Strasbourg alone, coming after attacks on bus and tram drivers in troubled areas of other large cities last year, raises important questions about French urban policy.

It has also sharpened political rivalries. Jacques Chirac, the Gaullist president, seen to re-establish a commanding role for himself after his party's election defeat last year, swiftly took the initiative by convening a meeting of a dozen mayors at the Elysée Palace last week to debate the topic.

He let it be widely known that the discussions had run on for over four hours.

Not to be outdone, Jean-Pierre Chevènement, the Socialist interior minister, Martine Aubry, employment minister, Elisabeth Guigou, justice minister, and Alain Richard, defence minister, jointly addressed more than 300 mayors in Paris last Monday. They unveiled their "local security pact" designed to improve efforts to calm urban tensions.

To some, including the leftwing daily paper Libération, the extent of the violence has been exaggerated and even partly provoked by the media, especially the presence of television.

Equally, there is little doubt

that films such as *La Haine* have focused on the negative aspects of life in French inner cities.

Mr Chevènement emphasised on Monday that, according to his figures, delinquency had declined by 1.88 per cent during 1997. Besides, urban violence was certainly not unknown in the US, the UK or other industrialised nations.

But troubled French urban areas do have some distinctive characteristics. Most are not "inner city" districts at all, but rather *banlieues* or suburbs, far more cut off than in other countries. The huge, dehumanising concrete towers of the "mushroom cities" built in the 1960s and 1970s around large metropolitan centres have long suffered from isolation.

Limited transport links, a concentration of low-income apartments and a gradual departure of shops and other municipal facilities have also led to a growing concentration of immigrants and unemployed people. Social problems have accumulated in consequence.

Some French suburbs report rates of joblessness several times higher than the national level, which is at a near-record high. It is little surprise that Islamic associations, among the few to remain in such areas, have gathered growing support from the young.

While one of the principal demands of local residents is greater security and a strong police presence, some critics



Riot police move against a demonstrator at an unemployment protest in Paris

argue that few officers live locally or are trained in community relations.

Confrontations with the young who live in these districts are common, and a handful of housing estates have become "no-go" areas.

But the situation is not so clear-cut. The prosecutions of those involved in the Strasbourg rioting show that many culprits came from relatively well-off families.

There were even some suspicions that car owners themselves may have taken advantage of the confusion to destroy their vehicles for the insurance money.

More broadly, there is cross-party agreement among urban mayors that measures to increase employment opportunities are at the centre of any

meaningful policy.

All those who talked to Mr Chirac last week, ranging from Communists to those on the political right, support Mr Aubry's initiative to create 350,000 state-supported jobs, targeted at the young unemployed.

Views are more split on ways to deal with delinquency. Some on the right have talked about imposing fines or reducing the welfare benefits of parents who do not effectively control their children. Even some mayors on the left have supported calls for curfews for the young.

Ms Aubry has called for the creation of a separate urban affairs minister to work with her. While absent from Mr Jospin's cabinet, such a figure appeared in

many previous governments in the 1980s and 1990s.

What is certain, and most feared by France's mainstream politicians, is that the recent discussions about urban violence will serve only to inflame public concern about safety, and play into the hands of the extreme rightwing National Front party.

The party, led by Jean-Marie Le Pen, achieved a near-record 15 per cent in the general election race last year, and his rivals worry that the latest polemic will increase support for the Front ahead of regional elections in March - particularly since one of the regions that most supported the National Front was Strasbourg.

Andrew Jack

Italian parliament rejects move to hold former minister

Rome off the hook over arrest

By James Blitz in Rome

The Italian parliament voted last night not to proceed with the arrest of Cesare Previti, the former defence minister in Silvio Berlusconi's 1994 government, who is facing corruption charges.

In a move that defuses a potentially serious crisis for Romano Prodi's government, the chamber of deputies voted by 341 votes to 248 not to proceed with the immediate arrest of Mr Previti as requested by Milan magistrates.

The decision not to ratify the arrest does not rule out Mr Previti standing trial at some later date for his alleged participation in the bribery of a group of judges who ruled on a 1993-94 case

involving the Italian merchant bank IMI and the SIR chemicals company. Mr Previti has repeatedly denied the allegations.

But a decision to incarcerate Mr Previti now - on the grounds that he might have tampered with evidence pending trial - would have triggered immediate retaliation from the political centre-right. This was a prospect that threatened to wreck Italy's programme of constitutional reform.

The figures in yesterday's vote suggested that most deputies in the centre-left ruling coalition and its communist allies had voted in favour of arrest. But members of the centrist Italian Popular party within the coalition had indicated they

would join the centre-right opposition bloc in voting against, while the regionalist Northern League party also appeared to have voted against arrest at the last minute.

Yesterday's vote was taken shortly before Helmut Kohl, the German chancellor, arrived in Rome for a short and informal visit during which he was expected to give encouraging words to Mr Prodi, the prime minister, over Italy's bid to enter the single European currency.

With the Italian government appearing quietly satisfied after European Union finance ministers endorsed the country's budget plans for 1998 on Monday, Mr Kohl and Mr Prodi were expected

to hold talks on a wide range of subjects, including Emu, the Kurdish refugee crisis and the possibility of EU enlargement to the east.

Mr Prodi's office has made it repeatedly clear in recent days that the chancellor's visit would not be accompanied by a firm commitment over whether Italy would qualify for monetary union.

But the nature of the visit seemed set to launch a warmer relationship between the two countries after some bitter words from German politicians in recent weeks over Italy's immigration policy and alleged laxity in allowing large numbers of Kurdish refugees into the EU.

Belgian court summons Dassault chief

By Emma Tucker in Brussels

A Belgian court has summoned Serge Dassault, chairman of Dassault Aviation, the French aircraft maker, and Willy Claes, the former secretary-general of Nato, to appear before it on September 2 to testify in a long-running corruption scandal.

The case concerns allegations that Dassault Aviation and Agusta, the Italian armsmaker, paid kickbacks to Belgian political parties in return for securing lucrative arms deals with the Belgian air force.

The allegations forced the resignation in 1995 of Mr Claes from the top Nato job. According to judicial officials, 10 other people, including Guy Coëme, the former Belgian defence minister, and Raffaele Terzi, former chief executive of Agusta, were also summoned on Monday.

Mr Dassault's group is alleged to have paid between \$2m and \$3m in bribes to the Flemish and Francophone socialist parties in Belgium in order to win a \$210m contract to supply electronic systems to modernise the air force's F-16 fighter jets.

The decision to award the contract to Dassault was made by Mr Claes, the former leader of the Flemish socialist party, who was then minister for economic affairs. Agusta, which received a contract in 1988 to supply 46 helicopters to the Belgian army, is suspected of paying BF51m (\$1.3m) to the Flemish party, as well as other amounts to its French-speaking sister.

Mr Dassault has denied all charges of wrongdoing but so far he has rejected moves to make him travel to Belgium. In May 1996 an international arrest warrant was served on Mr Dassault, but this was lifted last June.

NEWS DIGEST

Havel re-elected as president

Vaclav Havel, the Czech president, won re-election in the second ballot of presidential elections last night.

Mr Havel failed to muster the necessary absolute majority of all members of both houses of parliament in the first round yesterday. But in the second round, requiring a simple majority of those voting, he polled 99 votes in the 200-member lower house and 47 in the 81-member upper house the Senate, as the only candidate. Two candidates backed by the Communist party and the ultra-right Republican party did not gain enough support in the first vote leaving Mr Havel to advance to the second round unimpeded.

Of Mr Havel's failure to win an absolute majority in the first ballot, Petr Pithart, chairman of the Senate, said: "I think some members of parliament maybe wanted to tease Mr Havel a little bit."

Reuters, Prague

POLAND AND EUROPE

Spain offers advice on EU

Spain supports Poland's integration into Nato and the European Union, and will share the experience gained in its own accession process despite earlier disputes on trade issues, government leaders said yesterday.

Poland's prime minister, Jerzy Buzek, and his Spanish counterpart, José María Aznar, signed a joint declaration on Spain's support and on intensifying political and economic ties. Spain, which joined the common European structures in 1986, will make its access procedure experience available to Poland through regular meetings on integration among experts and officials, the declaration said. The government heads and foreign ministers are also to hold annual meetings and consultations.

Spain threatened last year to block Poland's EU negotiations as a way of applying pressure for a lower import tax on Spanish fruit in Poland. Earlier this year Spain also protested against the lowering of import duty on Polish steel sold to the EU.

Mr Aznar assured Mr Buzek he expected no difficulty in getting approval for Poland's Nato membership in the Spanish parliament.

AP, Warsaw

GERMAN ECONOMY

Asia worry for GDP target

German gross domestic product should expand by 2.5-3 per cent this year unless the financial crisis in south-east Asia deepens, the economy ministry said.

In a summary of its monthly report on the economy, the ministry said the target should be achieved as long as "the crisis in Asia does not deepen and does not spill over to other nations and regions".

It noted, for instance that, while German exports to the region account for 6 per cent of total exports, other countries that Germany trades with may export more to south-east Asia. Imports from the region, which have become cheaper as a result of the crisis, also will increase to Germany and the countries it trades with, the ministry said.

Apart from the possibility that German goods may be pushed out of other markets, the ministry said a decline in exports to Asia from Germany's trading partners may in turn affect German exports, "especially if the situation leads to a decline in economic growth".

AFP, Bonn

TURKISH POLITICS

Islamists seek compromise

Turkey's Islamists have offered to ease their opposition to the coalition government of the prime minister, Mesut Yilmaz, in an effort to water down a ban on the Islam-based Welfare party, government MPs said yesterday.

"They said they would change the tactics they have used until now. That is, they won't block parliament and present motion after motion to impede the passage of laws," Ugur Aksos, a senior member of Yilmaz's conservative Motherland party, said.

He said the Islamist leader, Necmettin Erbakan, made the offer to Mr Yilmaz at a meeting last Friday just before the constitutional court banned Welfare on charges of threatening the secularist constitution. The court also threw Mr Erbakan out of parliament and banned him from political leadership for five years.

Reuters, Ankara

SLOVAKIAN PLOT

Threat to kill PM claimed

The Slovak government said yesterday it had been warned of an attempt on the life of Vladimir Meciar, the prime minister, before the end of next month.

"On Monday afternoon, the government received a telegram from a Slovak diplomatic mission abroad warning of an assassination attempt by February 25," a government spokesman, Jozef Kroslak, said. The would-be assassins were alleged to have been given DM1m (\$500,000) from someone in Slovakia, he added.

A spate of car bombs, the burning of an opposition journalist's car last year and the kidnapping of President Michal Kovac's son in 1995 have made for a tense political atmosphere in Slovakia. This year Slovakia holds two crucial elections. Parliament will choose a new president on January 29. Elections for a new parliament will be held in late September.

Reuters, Bratislava

BOSNIAN SERBS

Nationalists spurn government

Bosnian Serb nationalists announced yesterday they would not recognise the new government named this week, threatening a fight for authority in the Serb-held part of Bosnia. The Serb Democratic party (SDS), still loyal to the wartime leader, Radovan Karadzic, said it did not acknowledge the government named after a stormy parliamentary meeting early last Sunday.

The SDS is the largest single party in the new Bosnian Serb parliament, but it and its allies were outvoted early Sunday by Serb moderates backed by deputies representing Moslem and Croat refugees.

The new Republic Srpska government is headed by a relative moderate, Milorad Dodik. In a boost for him, the Yugoslav government in Belgrade under President Slobodan Milosevic recognised his government on Monday, apparently ending support for the nationalists to which it has long been loyal.

AFP, Pale

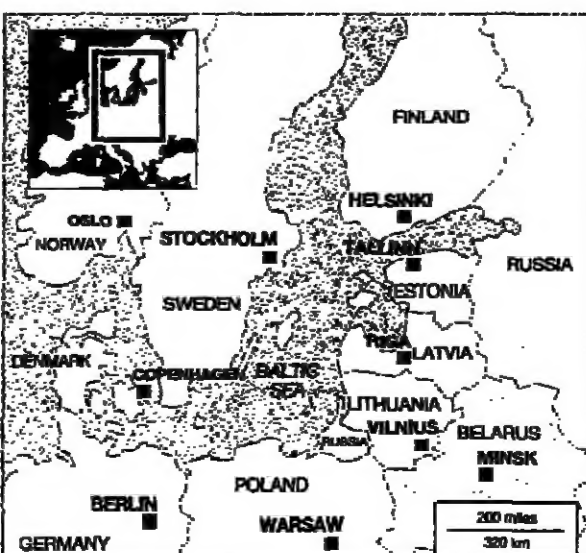
EUROBOND ISSUE

Prague refused permission

The Czech finance ministry has refused Prague city council permission to issue \$260m of eurobonds to fund infrastructure projects. It pointed to the government budget deficit and the country's growing foreign indebtedness as the reasons for its decision.

The 5-year bond issue managed by Credit Lyonnais and Nomura was planned to fund construction of two ring roads, a tunnel and an extension to the metro. The ministry said it would "help the capital city in finding other financial sources for the purposes". Some of these projects have already been started in the expectation that the bond issue would be granted. The city is already overdue with its payments to contractors on the metro. The ministry's decision highlights the problem of the growing indebtedness of municipalities, which some estimates put at Kc19bn (\$536m).

Robert Anderson, Prague



Baltic states discuss new links

By Anthony Robinson and Matej Vipotnik

Less than a week after President Bill Clinton endorsed the desire of Estonia, Latvia and Lithuania to join Nato, prime ministers from the Baltic basin states - including Russia - meet tomorrow to develop plans for long-term co-operation.

The meeting will be in Riga, Latvia's capital, and is only the second at prime ministerial level of the Council of Baltic Sea States, set up in Copenhagen in 1992 and now comprising 11 states including Norway and Iceland.

Despite Russia's formal objection to Nato membership for the three former Soviet Baltic nations, the resumption of economic growth in Russia and rapidly rising trade and investment in the Baltic region are creating an increasingly powerful stimulus for closer Russian involvement in other fields.

In 1990, the last full year of the Soviet Union, only 35 per cent of Soviet sea-borne trade went through the Baltic ports, including St Petersburg.

By last year, this had risen to 45 per cent, studies based on Russian and Finnish statistics show.

The volume of transit trade through the Baltic states has also risen strongly, especially through Latvia and Lithuania, which provides road and rail links to the Russian port enclave of Kaliningrad. At the same time, the Russian gas giant Gazprom is investing heavily in a new gas pipeline running through Belarus and Poland to northern Germany; other Russian energy companies are building new pipelines and loading facilities at Baltic ports.

The aim of the Council of Baltic Sea States is to facilitate much wider regional co-operation, bringing in the Nordic states, Poland, Germany and the European Union generally.

By leaving issues such as security, borders and minorities to regular meetings of regional foreign ministers, the council's prime ministers are left free to discuss broader issues of regional co-operation.

The council's remit covers development of democratic institutions, protection of

the Baltic's fragile environment and the struggle against organised crime. The framework also provides an opportunity for discussing issues in private bilateral talks and informal groups.

The Riga talks will, for example, provide an opportunity for useful talks between Helmut Kohl, the German chancellor, and Victor Chernomyrdin, Russian prime minister, the leaders of the

two biggest Baltic powers, John Prescott, UK deputy prime minister, will attend as the representative of the EU's current presidency.

Formally, the main subject on the agenda at Riga will be fighting organised crime and money-laundering. Rapid growth in both areas over the past few years has been a side-effect of the emergence of a new financial environment in the region.

09/21/98

Ukraine pays for hollow victory

Price for beating hyper-inflation is a payments arrears crisis, reports Charles Clover

When Ukraine conquered hyper-inflation three years ago, it paid a price, or rather, failed to pay it. The deficits which the government had financed with central bank credit did not go away, they merely mutated into a new problem.

"Instead of using printing presses, the government simply stopped paying some of its liabilities, and so did many commercial enterprises," said Janusz Szymmer of the Harvard Institute for International Development (HID) in Kiev.

Ukraine's "payments arrears" crisis is so severe that unpaid bills now exceed the national gross domestic product. The plague has afflicted other former Communist countries, notably Russia and Kazakhstan, but Ukraine is arguably the worst hit.

The overdue debts of the Ukrainian economy stand at a staggering \$60bn, according to detailed studies completed recently by the European Union's Tacis programme and HID.

Most of these debts are owed between enterprises, but workers and pensioners are owed about \$3bn-\$4bn by public and private entities, an issue which has come to dominate the run-up to next March's parliamentary elections. Energy has been rationed in some areas, not

because of a shortage of energy, but because of a shortage of payment.

Meanwhile, the amount of barter in the Ukrainian economy grew to \$6bn hryvna (\$34bn) worth of transactions last year, according to the state statistics committee.

The problem is treated in some circles as a legal issue, and recommendations have been made to strengthen contracts, enforce bankruptcy laws and develop a "culture of payment". But the crux of the issue is macroeconomic rather than legal. Even if everybody wanted to pay their debts, they couldn't, because the banking system is too small. Typically, bank assets and

trade credits in a western capitalist country hover at a level between 80 per cent to 150 per cent of GDP - roughly the level of arrears in the Ukrainian economy, according to the Tacis study. Bank credit in Ukraine, along with that in other countries hard hit by arrears problems, remains at a level of 5-10 per cent of GDP.

The Tacis study notes that Ukraine's inter-enterprise payments arrears have a "circularity index" of 85 per cent: that is, only 15 per cent of the arrears are net arrears. This means that most debts are the result of uncollected credits. Most Ukrainian enterprises, in other words, are

not bankrupt, but rather insolvent. "The non-payments crisis is absolutely a substitute for our lack of a healthy banking system," said Valentyn Kulichenko, Ukraine's deputy minister for industry. Enterprises have been forced to "borrow" working capital directly from employees, pensioners and suppliers, without banks as intermediaries.

Wage and pension debts of the Ukrainian government budget, which amount to more than \$1bn, can be thought of as *ad hoc* deficit finance.

The Ukrainian government in 1996 followed a fairly transparent policy of not paying this amount in salaries and pensions in order to keep its budget deficit within 3 per cent of GDP. "They tricked everyone for two years, because they had inflation under control, and everyone was looking at the cash deficit. But they were running arrears as a fiscal device," said a western economist in Kiev.

The behaviour of payments arrears in other countries tends to confirm that they are filling the vacuum left by lack of financial intermediation. Kazakhstan tried in 1994 to clear inter-enterprise debts, which



An old woman in Kiev counts the cost - workers and pensioners are owed nearly \$4bn

Romanians braced for reform vote

By Anatol Lieven

Both houses of the Romanian parliament are due to meet today for an emergency session which could decide the fate of the government and the Romanian reform process.

Emil Constantinescu, the president, called the session to vote on the government's reform legislation, starting with a bill to speed up the privatisation process.

Other proposals cover a range of issues, including the powers of the central bank and the privatisation of state utilities.

In an address to the nation over the weekend, the president said that if parliament voted against the proposals, a vote of confidence in the government would follow automatically.

The Democratic party (PD), junior partners in the coalition government led by Mr Constantinescu's National Peasants party, has already threatened to leave the government if Victor Cioba, the prime minister, does not resign.

The PD says Mr Cioba is responsible for delays and confusion in the reform process. Mr Constantinescu accused the PD last weekend of "medieval intrigues" and of defending the position of corrupt interest groups hostile to reform.

"This vote will show the parties' commitment or lack of commitment to the reform process," he said.

"Such votes will speak louder than political statements." The PD, led by Senate chairman Petre Roman, Mr Constantinescu's arch-rival, appears internally divided on how to vote today. It might find it difficult to vote



Victor Cioba: under fire

against reforms it has championed.

One PD leader, Radu Berceanu, has said that the PD should bring down the government in the event of a vote of confidence.

However, some PD leaders are anxious not to cause early elections, which opinion polls suggest the party would lose disastrously. Former foreign minister Adrian Severin, a PD vice-president, has said that early elections are not a "viable solution".

There have been suggestions that the PD may allow its MPs to vote independently in a vote of confidence.

Another possibility is that Mr Roman may use his position as chairman of the Senate - and therefore speaker of the joint parliamentary session - to delay the vote or block it altogether.

Under Romania's convoluted constitution, the rules for joint sessions and parliamentary votes of confidence give ample opportunity for more of the procedural confusion and delays which have plagued the Romanian reforms since they began.

Chubais downbeat over economy

By John Thornhill in Moscow

Anatoly Chubais, first deputy prime minister, yesterday gave an uncharacteristically gloomy assessment of Russia's economic prospects, suggesting a stable middle class might not emerge before 2015.

Mr Chubais said it would take many years of rapid economic growth to raise living standards although he predicted the average wage would double to \$400 a month by 2005.

Even if Russia maintained high growth rates thereafter, it would only rank between the fifth and tenth largest economies in the world by 2015, he said. That would be 30 years after Mikhail Gorbachev, the former Soviet president, first launched his perestroika drive.

Nevertheless, Mr Chubais, who has spearheaded the government's reform efforts for the past six years, said a great deal had been accomplished in 1997 in spite of much political mud-slinging and the fallout from the financial turmoil in south-east Asia.

For the first time in eight years, Russia had registered economic growth. In 1997, with gross domestic product rising by 0.4 per cent and industrial output by 1.8 per cent.

In an interview in the Kommersant newspaper, Mr Chubais said the government must tackle three important reforms this year. The corporate tax burden must be reduced, gas and transport tariffs should be cut, and the crisis over non-payment of bills must be resolved. If these issues were successfully resolved, the economic growth rate could rise to as much as 7 or 8 per cent a year, he predicted.

"The positive changes" in the Russian economy are only noticeable to a narrow circle of specialists, because a 2-3 per cent growth rate is a very interesting subject for professional discussion but is extremely insignificant for the average person," he said.

Mr Chubais made no reference to last week's redivision of ministerial responsibilities, which many observers believed left him in a much weakened position within the government.

The Leading Company in the Financing of Japanese Small Businesses

"In my opinion finance is all about trust. Trust in Nichiei and in what it does can only be earned from clients, employees, and shareholders by having complete transparency in our operations. I am a great believer in absolute openness and good faith."

Continued High Growth and Profitability through Differentiation

While the large banks have their severe bad loan problems and the weaker institutions have been starting to go to the wall, there is one outstanding, but little-known, finance company that is going from strength to strength. It is the leading company in lending to small businesses: Nichiei.

As of the end of March 1997, the total balance of lending was ¥434.1bn up 34.9% pa for the last ten years on average. Over the same ten years operating revenues have grown by an average of 33.4% pa. The year to March 1997 was the 14th year of uninterrupted revenue and profit growth. Return on equity, ROE, for the year was 21.4% and one of the best results of any publicly listed company in Japan.

The story behind these figures is the story of Nichiei: one of the few true venture businesses in Japan and the pioneer of satisfying the short-term working capital requirements of small businesses - requirements that the large banks have been unable to satisfy.

The Japanese financial community is currently facing a process of liberalisation, Japan's Big Bang, and the fallout of that is already being seen. Nichiei has built a niche market in small business finance and avoided any involvement in the excesses of the 1980's credit bubble. Nichiei can look at the Big Bang process with confidence and the expectation of growing business opportunities.

Credit Famine and Credit Feast

Nichiei was incorporated by the current President, Kazuo Matsuda, in 1970. Mr Matsuda had originally worked at two banks for a period of 18 years, before starting his own money lending firm in 1964 when he was 43. That was the beginning of the Nichiei of today.

Mr Matsuda talking about that time says, "While I was working at the two banks, I thought that the banks had got smaller businesses wrong. Bank management would only think about security and protecting the interests of the depositors. Smaller businesses had to meet unrealistic collateral conditions."

The banks were simply incapable of showing the required flexibility. This was the beginning of the Japanese non-bank

banks. Mr Matsuda with his banking experience was ideally placed to understand the business opportunity presented.

"When I was operating on my own in the early years that was when I really learnt the tricks of the trade." On his own for the first time, Mr Matsuda started to discount commercial notes - a kind of small business bill of exchange widely used in Japan. The problem was raising the funds: there was a continued funds famine for smaller companies and Mr Matsuda was in that bind himself too. It was particularly bad because the banks always had the ready-made excuse that there was no point in their lending to a direct competitor.

Not deterred, Mr Matsuda looked for other sources of funds and hit on the idea of taking small loans from the private savings of small business owners in his native city of Kyoto. The key was getting access to funds and I wheedled the money out of an ever widening circle of acquaintances. The circumstances meant that I could not afford to have any defaults. That is the origin of the credit control system at the base of Nichiei's success."

Then there was the 1973 oil crisis and a sudden downturn in the economy: the credit famine became a credit feast with the large banks seeking outlets for their excess funds. The banks and the other institutions which had ignored the smaller companies suddenly changed their stance and became active lenders.

"One moment the banks were not interested in discounting notes and the next moment they could not stuff enough notes into their vaults. The credit feast was an even worse time for Nichiei than the credit famine. We had 20 branches at that time throughout the country and were seriously thinking of a restructuring as the flow of business started to dry up. Things were really very bad." That was when Mr Matsuda hit on the novel idea of lending on promissory notes. "In retrospect, it was going through famine and fear in quick succession that made the company - but I would not want to go through the experience again."

Wide and Shallow

A Japanese promissory note is a negotiable instrument representing the promise by the issuer to pay a given amount on a fixed date. These notes have a long

history in Japan, are widely used, and are strictly regulated by law and established commercial practice. Promissory notes are acceptable to holders because: 1. the note is payable at a bank where the issuer maintains an account and is in good standing, 2. the note is presentable at the holder's bank on the due date and then is subject to settlement through the interbank system and the note clearing house, and 3. the issuer of a note that does not settle is subject to draconian sanctions and has every encouragement to ensure prompt and full settlement.

Credit control is further enhanced by the Nichiei "wide and shallow" principle of lending small amounts to a large customer base. Thus there is a ceiling on lending to any one client of ¥13m and a ceiling on the term of any one lending of six months. In fact of the ¥434.1bn of lending at end-March 1997 the average sum lent was ¥6.4m and 35.5% was due within one month and 36.0% due within two to three months.

Why did not Nichiei follow the herd of non-bank banks into property lending and massive loan expansion during the 1980's? "In the early days we did get involved in property lending, but quite frankly the type of personality and the appalling repayment performance very quickly convinced us that it was not an area for our company at all. From the very beginning we have always tried to do things differently: we were the first to introduce the idea of organising systematic direct salesmen visits to potential customers for the old note discounting business. So we naturally decided to take the low road of small business finance and avoided taking the high road of property lending."

Transparency of Operations

Nichiei established a 100% owned subsidiary, NSHC, in 1991. The function of NSHC is to provide guarantees for the loans on notes and to recover loans in default on a stand-alone basis. Nichiei is the only company in small business finance to have adopted this approach and this is another important differentiation leading to greater transparency in operations.

Being unsecured lending, the note loan is guaranteed by an individual and by NSHC which takes a guarantee fee of 2.0% of the amount of the loan irrespective of the term. In the event of default, NSHC makes payment

under its guarantee obligations to Nichiei, the note is endorsed over to NSHC, and NSHC is responsible for recovery.

"What struck me was that the banks had loan guarantee providers within their group, but the companies in money lending did not. If a subsidiary company, such as NSHC, is already going to provide a guarantee, it makes it psychologically much easier for an individual to offer a personal guarantee on top and then for the client to borrow too. A further objective is that loans in default get isolated from the general loan book of Nichiei. They get segregated on the loan book of NSHC. NSHC is then clearly responsible for settling the loan with Nichiei and dealing with loan recovery. NSHC has proven itself able to operate at a profit out of the guarantee fee and loans recovered. Nichiei and NSHC personnel concentrate their know how in their own specific specialities."

The consolidated accounts for the year to March 1997 show unrecoverable loans running at 3.4% of the total loan book and over the last five years the rate has not exceeded 4.0%. "In my opinion finance is all about trust. Trust in Nichiei and in what it does can only be earned from clients, employees, and shareholders by having complete transparency in our operations. I am a great believer in absolute openness and good faith. The establishment of NSHC must be seen in that light and NSHC plays a vital role in the Nichiei group."

Marketing Clout

What is important for the small business owner is the speed and ease of availability of funds. Nichiei makes a credit decision in 24 hours while the same decision takes a bank several weeks. Clients feel more comfortable with Nichiei.

Marketing is resolutely proactive: there are 200 branches and some 1,000 salesmen. The Nichiei Research Division is responsible for analysing the information available from credit research companies such as Teikoku Databank and Tokyo Shoko Research and preparing a master list of potential clients. Each salesman is given 300 small businesses from the master list to visit. The master list is fully updated every three months. "Currently we are pulling in 24,000 new clients every year."

"There is no doubt about the size and growth of the market."



Kazuo Matsuda, President and Chief Executive Officer

Another ten years of good growth is a certainty. We have some 80,000 active clients and the potential client population is close to 2 million. We are expanding our marketing efforts and plan to have 300 branches by the year 2001.

The banks are faced with the twin pressures of Big Bang and the BIS capital adequacy ratios against a background of the bad loan problem inherited from the 1980's credit bubble. The management response is to reduce lending and to shrink the balance sheet. This is obviously an enormous business opportunity for Nichiei.

"This is an opportunity for us to be selective and raise the average credit rating of the client loan book. That should then allow us to raise the loan ceiling and edge interest charged down. We must be prepared for intensified competition as the banks and the consumer finance companies try to move in on the market. We are confident that we have the know how and experience to cope. In the year 2001, the year the Big Bang process should be completed in, Nichiei aims to have a loan book of ¥1,000bn up 130% on 1997 and parent pre-tax profits of ¥100bn up 115% on 1997."

While the business is an entirely domestic business, Nichiei has diversified its sources of funds and in September 1997 made a maiden international offering of 4.5m shares to foreign investing institutions.

Management Succession

Kazuo Matsuda has reached the age of 75. Investors who have always considered that he is Mr Nichiei are naturally concerned about management succession. Mr Matsuda is not the type of man to duck the issue. "My responsibility is to ensure a successful handover to the next generation. My son, Ryuichi Matsuda is aged 45 and is the Executive Managing Director of the company and he is being groomed as my successor. Everything is in hand. He has a more logical way of looking at things than me and is a tough manager. I could hand over at any time now, but personally I would like to keep in harness for another 10 years or so."

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NEWS: THE AMERICAS

Asia effect 'may be less than feared'

By Raymond Colitt
in Caracas

Latin America will see economic growth slow only slightly in 1998 and is unlikely to suffer any long-term impact from the Asian crisis, according to Ricardo Hausmann, chief economist of the Inter-American Development Bank.

At an industry conference in Caracas yesterday Mr Hausmann said growth in Latin America this year would slow by less than 1 percentage point as a result of the Asian crisis. Regional gross domestic product gain, excluding Brazil, would reach 5 per cent.

Brazil, he admitted, was "more complicated" and would grow "by no more than 2 per cent because of fiscal cuts and efforts to preserve foreign exchange stability".

"This is a small blip from which we will recover. This time they [the Asian countries] are in trouble, not us," said Mr Hausmann, referring to the early 1990s when Asia briefly suffered under the Latin America debt crisis.

Today the situation was reversed, he said, rejecting suggestions that Latin America had problems similar to those Asia currently had. "Our fundamentals are strong."

He argued the region's financial situation was solid. "We've neither seen excess-

sive credit growth nor fiscal deficits (except for Brazil), both typical conditions preceding financial crises."

Because of its limited regional integration, Brazil had not been an engine of regional growth nor had it dragged down the region's economy during the last large crisis - the 1994 Mexican devaluation, he said.

Structural reforms - including tariff reductions, a restructuring of the banking sector and stronger revenue bases - accounted for 2 per cent of GDP growth in Latin America over recent years, said Mr Hausmann. The region saw the strongest growth performance - 5.5 per cent - in a quarter century within a deflationary context. Regional average inflation came down for the first time to a single digit.

"We've seen impressive structural reform and economic stabilisation in the region."

Mr Hausmann's upbeat outlook follows recent dramatic falls in the region's stock markets and readjusted growth forecasts. Several of the region's countries have seen export prospects dip under weakening Asian demand.

The Asian crisis was having two principal short-term effects, said Mr Hausmann. "One is that we're in the same equity class - emerging markets. Two, our trade terms are worsening."

FDA to act on human cloning

By Mark Suzman
in Washington

The US Food and Drug Administration (FDA) has announced that it will take action against anyone who seeks to clone humans until Congress passes legislation on the issue.

Michael Friedman, acting commissioner of the FDA, warned that any attempt to pursue cloning without the agency's approval would be a violation of federal law.

He said that because cloning had health and safety implications for both fetus and mother, it fell within the FDA's legal remit to regulate, and the agency would be prepared to go to court to stop unauthorised cloning experiments.

The announcement follows growing concern about the medical and ethical repercussions of cloning humans after Richard Seed, a Chicago scientist, announced he was prepared to start doing so within 18 months.

President Bill Clinton has already banned the use of federal funds for human cloning research following the announcement last year that Scottish scientists had successfully cloned an adult sheep. He has called on Congress to pass legislation banning such cloning as soon as possible.

Several related bills have already been introduced in preparation for Congress's return from winter recess next week.

Smalltown Amarillo is all set for big court case over BSE remark

Oprah beefs up Texan town

Farmers' internet chat-lines are humming. Amarillo, a 180,000-strong cattle town in the Texan Panhandle, is abuzz with activity. And, from newspaper leader columns to conferences, environmentalists and libertarians have started to debate whether Americans' constitutional right to free speech should override a trachea of new "food defamation" laws.

The cause of this furor is the lawsuit brought by Texan cattle-ranchers against Oprah Winfrey. They claim the hugely popular TV personality cost them millions of dollars when her talk show ran a segment on BSE - bovine spongiform encephalopathy or "mad cow disease" - and its possible implications for the US meat industry.

In the course of the April 1996 show, Ms Winfrey said that discussion of the brain-destroying malady which has caused big problems for the British cattle industry had "just stopped (her) cold from eating another burger" - despite the official US line that there is no evidence of the disease penetrating the US meat sector.

Live cattle futures fell after the show, prompting Paul Engler, a cattle producer whose Cactus Feeders company is based near Amarillo, to sue Ms Winfrey and one of her guests under Texas's food defamation laws.

Yesterday, after two weeks of pre-trial manoeuvring, the case began in earnest as jury selection started. But already, outside the courtroom, Ms Winfrey - who



Oprah Winfrey waves from a car in the town of Amarillo

flew into Amarillo on Monday afternoon - has shrewdly turned herself into a business asset for the Texan town.

Two weeks ago, her publicity machine let slip that she would broadcast her programme, normally filmed in Chicago and attracting up to 15m viewers, from the Amarillo Little Theatre next week. That, in turn, prompted rampant speculation over where she would stay, where she might eat, and who she might interview.

Inevitably, a bevy of reporters have landed on Amarillo in her wake. Satellite trucks now ring the local courthouse.

Already Judge Mary-Lou Robinson has struggled to prevent the blaze of public-

ity from submerging the case. "It has come to the attention that the approaching trial... is generating pervasive media attention," she said in a recent ruling, pointing to media calls over court seating arrangements and the growing risk that the potential jury pool would be "tainted".

Accordingly, she has slapped "gag" orders on the plaintiffs, defendants and their respective lawyers - although this has done little to suppress media coverage. Ms Winfrey's own lawyers have argued unsuccessfully that the case should be removed to Dallas where, they claim, the chances of an impartial jury might be improved.

The swelling publicity, say

consumer advocates, should not distract from the important principles underlying the case - which effectively pits food defamation laws, introduced in about 13 states over the past three years and usually tagged "veggie libel laws," against the right to free speech.

At a conference in Washington DC yesterday, Reginald James, director of the south-west regional office of the Consumers' Union, argued that the laws themselves "turn 600 years of common law on its head" and could threaten the flow of information about essential industries and products.

The outcome of the case was "going to mean a lot for the protection of our food

supply," he argued, saying "a lot of the message (on food safety) has come through the media". The government, by contrast, had not been "particularly aggressive".

Pointing to the vagueness with which these laws have been drafted, he also wondered if the Bible might be libellous when it urged against the eating of fish without scales - a stipulation which hardly benefits owners of commercial catfish farms.

Nevertheless, in the particular circumstances of the case, plaintiffs will need to demonstrate Ms Winfrey's show violated the Texan act by knowingly giving out false information about beef.

Much may turn on how the programme (which did include a representative of the National Cattlemen's Beef Association and the US Department of Agriculture) was edited, and Ms Winfrey's remark about burger abstinence. This appeared to endorse concerns expressed by one guest on the show, the cattlemen's lawyers could argue. Court documents, on the other hand, suggest Ms Winfrey's lawyers will maintain that she was simply stating an opinion.

Back on the internet chat-lines, farmers themselves seem to have mixed views. Not all are unsympathetic to Ms Winfrey. "It is not the cattle industry suing Oprah, it is one cattleman," suggested one caller to the talk site run by "Successful Farming".

Nikki Tait

\$200bn reduction proposed in US debt

By Bruce Clark
in Washington

Congressman Bill Archer, chairman of the influential House Ways and Means committee, yesterday proposed a \$200bn reduction in US national debt over 10 years, and a cap on taxation at 19 per cent of gross domestic product.

The proposals were the Republicans' opening shot in what they have described as a "battle royal" over how to make use of an increasingly favourable budget outlook.

President Bill Clinton said earlier this month the budget could be balanced by the next fiscal year, starting October 1, because public finances were improving even faster than expected.

The president and the White House have cautioned against using the favourable position for a reckless bonanza of spending or tax cuts. But Mr Clinton is widely expected to suggest improvements to education and childcare when he lays out his budget proposals over the next two weeks.

Mr Archer said yesterday said that, despite this rosy background, the total tax take was 19.9 per cent of GDP, the highest level in US history, apart from the second world war. He cited a Congressional Budget Office forecast which projects a \$660bn surplus over the next 10 years, and said this gave an opportunity both for tax relief and a reduction in the national debt.

The Texas Republican also announced a series of congressional hearings on a Taxpayer Relief Act which would consider proposals ranging from easing death taxes to simplifying capital gains tax.

He also proposed a fund to provide state governors with at least \$1bn to be used on efforts to support family life through voluntary organisations, child support and incentives for fathers to stay with their children.

The money would be found by setting a cap on the fees received by lawyers involved in the "tobacco settlement" under which cigarette companies are limiting their liability for damage to public health.

The congressman called on Mr Clinton to reintroduce a comprehensive proposal to arm himself with fast-track authority to negotiate trade deals. The defeat of this proposal last year was a blow to the Clinton administration.

NEWS DIGEST

Castro call to welcome Pope

Pope John Paul II starts a historic five-day visit to Cuba today surrounded by a storm of speculation about its potential political impact on the communist-ruled Caribbean island.

The 77-year-old Polish pontiff, making his first visit to Cuba, will receive a red-carpet welcome from President Fidel Castro's government, which has made a public commitment to guarantee the success of the trip. Mr Castro has called on the citizens of Havana to turn out to greet the Pope and has urged Cubans to attend the open-air masses scheduled to be held in three provincial cities and Havana's Revolution Square during the January 21-25 visit. "We want the squares full... the Pope will like it," he said.

Dismissing media speculation that the Pope's past reputation as an anti-communist crusader in Poland could threaten Cuba's one-party socialist system, Mr Castro has hailed the visit as "an honour" for the revolution.

The Roman Catholic Church has gone out of its way to damp down speculation about the possible political implications of the visit. Cuban Cardinal Jaime Ortega said yesterday the Church should not be considered an "alternative power to endorse or destroy" the regime. Nevertheless, the Cuban Church expects to gain increased space for its religious, social and humanitarian activities through the visit. *Pascal Fletcher, Havana*

■ CANADA-ARGENTINA

Chrétien signs contracts

Canadian and Argentine business leaders yesterday signed some 70 contracts worth about \$300m on the third leg of a four-country Latin American tour headed by the prime minister, Jean Chrétien. Deals were struck in the areas of mining, atomic energy and finance among others, underlining Canada's position as the third largest foreign investor in Argentina between 1995 and 2000.

"Canada and Argentina are natural partners," said Sergio Marchi, Canada's Argentine-born minister of trade. Plans to sign a free trade deal with Mercosur, the customs union representing Brazil, Argentina, Paraguay and Uruguay, in Buenos Aires yesterday were cancelled because of a trade dispute with Brazil. Mr Chrétien and Fernando Henrique Cardoso, Brazilian president, have agreed each to appoint a special envoy with a 30-day deadline to reach an agreement.

The row involves Canadian aircraft manufacturer Bombardier, which cancelled a \$90m contract in December to buy 24 aircraft from the Brazilian company Embraer. If agreement is not reached Canada will take the dispute to the World Trade Organisation, said Mr Marchi. *Andrea Campbell, Buenos Aires*

■ PORT DEVELOPMENT

Bogotá seeks Japanese aid

Colombia yesterday requested a \$1.5bn credit from the Japanese government to finance a project to develop the Pacific port of Buenaventura.

The request came from Maria Ema Mejia, foreign minister, who is on a tour of south-east Asia. She said the project would develop Buenaventura's existing port infrastructure and create rail and road access to the port. The project was the result of three years of planning and would take an estimated 10 years to complete, she added. *Adam Thomson, Colombia*

■ EU INTERNET SERVICE

Microsoft amends contracts

Microsoft yesterday said it would amend contracts with internet service providers in Europe to meet concerns from the EU's anti-trust authority. The conciliatory stance contrasts with its reluctance to abide by a US Justice Department order to unbundle its popular Windows operating system and its Internet Explorer browser.

Microsoft Europe confirmed it would change contracts with about 30 European companies providing access to the Internet after Karel Van Miert, EU competition commissioner, said a compromise was in sight. Mr Van Miert said Microsoft appeared prepared to offer remedies to clauses in contracts with service providers that were "lying in the face of competition". *Ruwers, Brussels*

Whose company should you keep?

The FT 500. Thursday January 22.

For listings of the European, UK, Japanese and US top 500 international companies based on market capitalisation, look in the FT on Thursday. The survey will also include detailed comment and analysis from FT journalists worldwide.

FINANCIAL TIMES
No FT, no comment.

09/1/2015

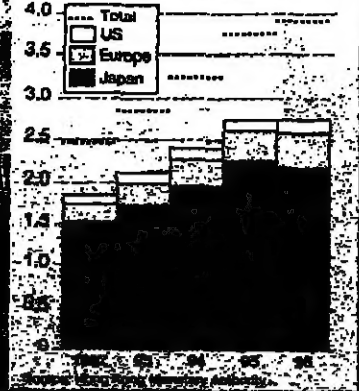
Banks put squeeze on HK companies

John Ridding and Louise Lucas on pressures arising from the 'Japan premium'

Hong Kong: tight money

Loans and advances to HK customers

By country/region (HK\$000bn)



Hong Kong companies are facing a credit squeeze as banks in the territory take a defensive stance in the regional financial crisis and economic downturn, according to corporate executives.

Credit constraints are being increased by Japanese banks' moves to curb loan growth. Japanese banks are the biggest foreign lenders in the territory but have seen profit margins erode as they are forced to pay a premium for funds in the inter-bank lending market.

All banks are reviewing their exposures, said the finance director of one blue-chip company. "It is getting tight. If a bank reduces credit or refuses a new loan, it is hard to find a replacement."

For many Hong Kong companies under pressure from falling demand and rising interest rates, tighter credit increases the risk of failure. Though Peregrine, the investment bank, collapsed because of problems overseas, it was unable to secure bridging funds from banks in the territory. Several fashion and retail companies have been placed under credit review by their banks.

"They are just the high-profile names, but the pressure is winding up across the corporate sector," said the senior manager of one European bank in Hong Kong. He cited retailers and trading companies exposed to troubled regional economies as the biggest worry.

In addition to the heightened risk of default in Hong Kong, Japanese banks are

facing their own pressures to tighten lending in the territory. "Because of the 'Japan premium' we make a loss on lending, so it's a pretty difficult situation," said Koji Tasaka of Sumitomo Bank in Hong Kong.

With concerns over the financial standing of Japanese financial institutions, Japanese banks are having to pay a premium of more

than 80 per cent above other borrowers in the interbank market. "The 'Japan premium' is eating away all our spread," says the Hong Kong general manager of one of Japan's biggest banks.

Japanese banks are also trying to cut their asset base to meet Bank for International Settlements capital adequacy ratios. "Our assets are being squeezed and some

financial problems at C.A. Pacific Finance, a Hong Kong money lending business, highlight the need for regulation of margin finance companies, Donald Tsang, financial secretary, said yesterday. Louise Lucas reports from Hong Kong. Margin finance is widely used in Hong Kong to buy shares.

On Monday, regulators ordered members of Capital Asia group, a diversified property-to-securities group, not to conduct new securities, futures and foreign exchange business because of debt exposure to C.A. Pacific Finance, an associate company.

(US\$258bn) last year. retrenchment has significant implications for corporate liquidity in Hong Kong. The problem is worsened by a tightening in funds from other sources.

Even some of the territory's biggest companies are likely to find lending terms becoming tougher. Last Friday, Moody's lowered its debt rating outlook for Swire Pacific, Hyman Development and Wharf Holdings.

The US credit rating agency cited concerns about the potential for prolonged weakness in Hong Kong's office and retail property sectors. "Such weakness," said Moody's, "combined with other factors specific to each of the issuers, could impair the operating and financial strengths of the companies."

The higher costs of borrowing are also evident in the secondary debt market, where interest rates for Hong Kong companies have widened. Hutchison Whampoa's Yankee bond, a benchmark blue-chip issue, trades at more than 250 basis points above US treasury bonds.

Japan's Fair Trade Commission orders halt to anti-competitive practices

Sony warned on PlayStation prices

By Michio Nakamoto in Tokyo

Japan's Fair Trade Commission yesterday warned Sony Computer Entertainment (SCE), maker of the popular PlayStation, to halt anti-competitive practices aimed at maintaining prices of PlayStation games machines and software in the Japanese market.

The JFTC claims that SCE, a unit of Sony, infringed Japan's anti-monopoly laws by fixing the retail price of PlayStation software and prohibiting the sale of used software. SCE denied that it had fixed prices and that it was confident it had not

infringed Japan's anti-monopoly law. SCE also said it would not accept the JFTC's order.

The JFTC move follows nearly a year of investigation into the company and highlights Sony's dominant position in Japan's video games market.

Sony's PlayStation has sold a cumulative 9.4m units in the domestic market, compared with 5.2m for Sega's Saturn and 2.47m for Nintendo's Nintendo64. The PlayStation's success has given it tremendous power in the market, analysts said.

The JFTC notes that SCE sets

retail prices for software it has developed and negotiates retail prices for those that third parties have developed. SCE requires retailers to maintain the retail price and not to sell used software, the JFTC points out. SCE also conducts checks on retailers.

The charges are an embarrassment for Sony, which has been credited with building up an impressive video games business and taking on the industry giants, Nintendo and Sega.

Consumers are likely to benefit from the JFTC order, which could enable retailers to establish prices

freely and lead to the development of a secondary market, notes Hiroshi Sawaie, industry analyst at Nikko Research Centre in Tokyo.

"Sony will have to be very careful about how it deals with its software inventories," says Masashi Kubota, industry analyst at IDC Earnings in Tokyo. The company's strategy of making it relatively easy for third-party developers to develop software for the PlayStation meant there was a lot of poor-quality software on the market, which retailers could start bundling with the hardware itself, resulting in software and hardware price falls, analysts said.

Loan for Malaysian hi-tech hub

By Sheila McNulty in Sepang

Cyberview, the Malaysian company responsible for developing key parts of the country's Multimedia Super Corridor, said yesterday it would soon borrow M\$1.6bn (US\$386m) to build the infrastructure for what is planned to be a hi-tech international business hub.

Plans to take on such debt, when Malaysia's financial institutions are feeling the pressure of domestic debt already at 170 per cent of gross domestic product, shows the lengths to which the authorities will go to make a success of the nation's most grandiose project. Some of Cyberview's shareholders are close to the government.

Economists say the regional financial crisis will see non-performing loans jump from around 5 per cent last year into the high teens this year. Many financial institutions are hesitant to expose themselves to further risks at this point.

But the chief executive officer of Cyberview, Abdul Karim Abu Bakar, noted that the authorities had made the project a priority. "I'm confident we will get the money," he said. "We need financing fast."

Cyberview is to spend M\$4bn - much of it collected through booking fees and outright purchases - to develop 2,800 hectares into an "intelligent city".

News of the loan plan comes just days after Michel Camdessus, IMF managing director, said interest rates should be raised to slow credit growth. Mahathir Mohamed, the prime minister, said authorities would look into raising rates but insisted the crisis would not affect the corridor project.

US presses for Finance ministry faces reduction in powers

By Gillian Tett in Tokyo

The US yesterday urged Japan to take more steps to support its economy, which according to a Bank of Japan report is now effectively "stagnant".

Thomas Foley, the recently appointed US ambassador to Japan, called on the government to give "consideration" to the need for new stimulus steps. His comments reflect growing unease among Japan's main trading partners that any downturn in Japan could further fuel Asia's financial crisis.

Yasuo Matsushita, governor of the central bank, said in the bank's latest monthly report: "Weak domestic demand has had a negative impact on production and incomes... more cautious corporate and consumer sentiment is having a big effect on Japan's real economy as a whole."

These comments are likely to increase the pressure on

Ryutaro Hashimoto, Japan's prime minister, to unveil additional stimulus measures.

Last month he announced Y2,000bn (\$15.5bn) of income tax cuts and a proposed Y30,000bn support package for the ailing banks. However, opposition parties have warned that the Y2,000bn tax cuts will be insufficient to ward off the risk of recession. In recent days officials from the US and European Union have stepped up direct pressure on the Japanese government to consider taking additional stimulus steps.

Mr Hashimoto has recently hinted he might unveil additional measures later in the spring if the economy deteriorates further. But though these hints have boosted the stock market more than 11 per cent in the last week, he has not made any firm pledges yet.

Mr Foley yesterday refrained from calling for specific new tax cuts.

By Gillian Tett

Japan's ruling Liberal Democratic party (LDP) yesterday pledged to strip the Ministry of Finance of most of its responsibility for domestic financial markets, confirming what has been widely expected as the country deregulates its financial sector.

The announcement is a humiliating blow for the ministry, whose mandarins were once seen to have almost omnipotent control over the world's second largest economy. It follows months of political debate about the fate of the ministry.

It had been widely criticised for its role in the 1980s property "bubble", which paved the way for Japan's current economic difficulties. The ministry has also been embarrassed by the arrest of ex-employees in a widening corporate corruption scandal.

Some politicians have



Hashimoto: compromise

demand the complete dismantling of the ministry as part of a broader plan to streamline the government.

Until now, these plans have been fiercely resisted by some LDP members. However, Ryutaro Hashimoto, Japan's prime minister, yesterday said a compromise had been agreed.

The ministry's powers will be transferred to a body

called the Finance Agency, which will be established next summer. The LDP backed away from stipulating any timetable for the change, but some observers suspect that bureaucratic opposition may water it down.

The compromise would remove ultimate control over domestic financial markets from the ministry, unless a severe crisis occurred, according to an LDP policy plan.

The ministry's banking, securities and insurance bureaux will be merged and their staff cut by around two-thirds to fewer than 100. About 300 of the 2,000 ministry staff will move permanently to the new Finance Agency, which will have ultimate control of financial regulation and policy.

The changes will still leave the ministry with responsibility for economic policy, currency markets and international financial relations.

Taiwanese visit to Jakarta irks China

By Laura Tyson in Taipei

The arrival of Taiwan's premier, Vincent Siew, in Indonesia, on another "secret" trip for talks with President Suharto on Asia's financial crisis yesterday provoked strong condemnation from Beijing.

China says Taiwan, which has been largely unaffected by the Asian financial crisis, is taking advantage of the region's economic difficulties to spread its influence. Taiwan has been wooing troubled neighbours with its economic clout. A week ago, Mr Siew made a surprise visit to the Philippines, where he met President

Fidel Ramos and Mitsuo Sato, head of the Asian Development Bank. China, which regards Taiwan as a rebel Chinese province, then lodged a "severe" protest.

Taiwan, which says its relative financial health leaves it well positioned to help neighbours in distress, has mounted a bold drive to beef up its unofficial ties with the Philippines, Thailand, Malaysia and Indonesia.

An 80-strong delegation of Taiwan businessmen led by the cabinet economic policy chief, Chiang Pin-kung, has been touring the four countries to seek investment opportunities. Mr Siew's presence in Jakarta coincides with the mission's

visit. Taipei has no official ties with any of the south-east Asian countries, all of which recognise Beijing.

"Activities by the Taiwan authorities are unpopular and doomed to failure," said Shen Guofang, China's foreign ministry spokesman. "We are resolutely opposed to any form of official contacts with Taiwan by countries having diplomatic relations with China," he said.

China is still smarting over Taiwan Vice President Lien Chan's New Year visit to Singapore - one of Beijing's closest friends in the region - and the rare stopovers in Taiwan by the Singaporean and Malaysian prime ministers.

Beijing's condemnation coincides with Taiwan's offer to open "unconditional" political talks with the island. Taipei said the two sides should return to the technical negotiations severed in June 1995.

"We hope the two sides can start formal political talks as soon as possible," said Mr Shen. He said there were no pre-conditions to the talks but insisted that both sides must agree that there is only one China.

Shen Ke-sheng, vice chairman of Taipei's Mainland Affairs Council, dismissed the appeal: "The so-called one-China principle itself is a pre-condition."

Beijing has always insisted talks be conditional on Taiwan accepting its "one China" principle - that the only China is the communist People's Republic and that Taiwan is part of it. Taipei maintains China has been divided into two sovereign entities represented by the People's Republic on the mainland and the exiled Republic of China on Taiwan since civil war ended in 1949.

China cut off the earlier cross-strait dialogue in June 1995, angered by a visit by Taiwan's president, Lee Teng-hui, to the US.

NEWS DIGEST

Thailand sets up rescue bank

Thailand's cabinet yesterday approved the creation of a state-owned commercial bank, finance company and securities company that will bid to buy performing assets of the 56 finance companies which the government shut down late last year.

The new bank, called Radhanasin (or Good Assets), will take part in an auction process planned by the country's Financial Restructuring Authority (FRA), which is overseeing the liquidation of the finance companies.

Radhanasin will have Bt4bn (\$75m) in working capital, while the finance company and the securities company, which will bid for a more limited range of assets, will have Bt500m each. The capital is being lent to the Thai government by the World Bank and Asian Development Bank as part of their contribution to the \$17.2bn international bailout package for Thailand.

FRA officials estimate that of the Bt300bn in assets held by the closed finance companies, about Bt200bn are still performing. To purchase all these assets at current prices and still maintain a healthy capital position, Radhanasin and its affiliates would need to raise four times their initial capital.

Ted Bardache, Bangkok

1998 PROJECTIONS

Singapore warns on trade

Singapore's Trade Development Board projected yesterday that trade growth in 1998 would be between 3.5 per cent and 5.5 per cent but warned there could be a revision because of "volatility of developments in the region".

The board said Singapore's full-year, non-oil domestic exports increased just 3.3 per cent to S\$41.5bn (€3bn) in 1997, with growth already slowed by the regional economic turmoil. December's non-oil exports increased 13 per cent from the year earlier to S\$8.46bn. Total December exports rose 11 per cent on the year-earlier period.

The strong economies of the US and EU helped non-oil exports growth in December, while the lethargic growth in Japan had an adverse effect. Non-oil exports to the US rose 14.8 per cent in December over the year-earlier period, while non-oil exports to the EU increased 15.4 per cent. Non-oil exports to Japan fell by about 10 per cent.

Sheila McNulty, Kuala Lumpur

OIL TARGET ATTACKS

Ramos orders tighter security

Philippine President Fidel Ramos yesterday ordered increased security around government offices and oil facilities, following a grenade and rifle attack earlier this week on an oil company and the Energy Regulatory Board.

Mr Ramos said he would not tolerate "barbaric" activities and appealed for "calm and understanding". The separate attacks on Monday came in the wake of an increase in oil prices last week. The Alex Boncayo Brigade, a breakaway faction of the Communist party, claimed responsibility for the incidents in which no-one was hurt.

Justin Marazzi, Manila

PLEDGE OVER DONG

Hanoi resists devaluation

Vietnam's central bank yesterday said it would continue to resist calls for devaluation of the country's currency, the dong, despite pressure to act in the wake of the regional financial turmoil and falling exports.

"We have no policy to devalue the dong. We will just adjust the rate to be closer to the market exchange rate. And right now we're still positioned to manage the rate at a reasonable level," said Phi Dang Minh, deputy director of the foreign exchange department.

Hanoi's view of its currency is looking increasingly out of kilter with those of most bankers and economists, who say action is needed as the dong is overvalued by about 30 per cent. Exports of rice, a top foreign exchange earner, are suffering as buyers switch to cheaper and better quality Thai rice. Hard currency is in short supply with most economists saying foreign exchange reserves, worth about \$2bn, are no longer rising.

Jeremy Grant, Hanoi

FOCUS ON SMALL ENTERPRISES

German team in Indonesia

A delegation of bank and government officials sent to Indonesia by Helmut Kohl, the German chancellor, yesterday indicated Germany would offer "concrete proposals" to support small and medium-size enterprises in Indonesia. The team's visit comes as a result of a request by President Suharto. Germany may also offer technical help in drawing up a new central bank law.

The delegation welcomed Indonesia's focus on tackling economic problems but said "the government should perhaps also engage somewhat more in explaining the reforms in their overall context, the implications and their long-term benefits". German aid could require assigning German experts to work with the International Monetary Fund and World Bank.

Ralph Atkins, Bonn

CONTRACTS & TENDERS

REPUBLIC OF TUNISIA

Invitation for expression of interest for the privatisation of
LA SOCIÉTÉ DES CEMENTS DE JEBEL OUST

Pre-qualification to bid

Within the framework of the privatisation programme of the Republic of Tunisia, the Government of Tunisia hereby announces a two stage international tender for the purchase of 100% of La Société des Ciments de Jebel Oust, one of the leading cement manufacturers in Tunisia with a capacity of 1 million tons.

In the first stage, interested parties are invited to express their interest so as to be pre-qualified for the second stage of the process. Pre-qualification criteria will be based on the operational track record in the cement industry and financial strength.

In the second stage, for those who meet the pre-qualification criteria, invitations will be sent together with the tender documents, including the procedure and timetable to be followed.

A letter of interest and the latest annual report of the submitting party shall be sent no later than February 13th, 1998 at 5.00 pm to:

MINISTÈRE DU DÉVELOPPEMENT ÉCONOMIQUE
Direction Générale de la Privatisation
Place Ali Zouaoui
1000 Tunis, Tunisia

Reference: Privatisation of the cement sector (CJO)
Tel: 216 1 - 354 467 Fax: 216 1 - 350 975

Sri Lanka stands by policy on rupee

By Mark Nicholson in Colombo

Sri Lanka's central bank will resist calls to devalue the rupee to meet competitive pressures caused by the south-east Asian currency crisis, but will continue to "adjust" the currency where necessary, according to A.S. Jayawardena, central bank governor.

Recent currency falls in Thailand, South Korea, Malaysia and Indonesia could harm Sri Lankan exports, especially of garments, but the central bank was monitoring the rupee's competitiveness daily and

adjusting accordingly, Mr Jayawardena said in an interview.

The rupee continued its managed slide, closing yesterday at 82.14 to the US dollar, having depreciated almost 8 per cent since the currency storm began six months ago. "The appropriate response is not to panic... and get the house collapsing, or you end up by feeding speculative instincts," Mr Jayawardena added.

But he said the bank was daily monitoring the rupee against a basket of 24 currencies of trading partners and rivals. "Our index will

show if there is a loss of competitiveness; then we will continue to adjust."

The central bank largely manages the rupee's rate, setting daily indicative quotes based on its own assessment of the rupee's competitiveness and on daily market movements.

The International Monetary Fund has called the policy "appropriate" for Sri Lanka, though urging more flexibility in moving the rupee in response to market changes.

Central bank officials say Sri Lankan exports have so far mostly weathered the exchange rate shocks,

with average export growth sustaining 14 per cent to the end of the calendar year. Garment exports, accounting for 46 per cent of Sri Lanka's export earnings, have also remained largely unaffected.

However, some export associations have urged the bank to devalue the rupee to about Rs70 to the dollar. Socgen-Crosby, the investment house, said last week it estimated the rupee to be 20 per cent, arguing that garment, gem and ceramics exports would be hurt by sharper devaluations in Thailand, Indonesia and the Philippines.

NEWS: WORLD TRADE

Talks seek sharp rise in flights but want price regulation kept intact

US, Japan aim at new air deal

By Nancy Dunne
in Washington

Washington and Tokyo this week are expected to produce a framework agreement to liberalise bilateral air travel which would sharply increase the number of flights but leave price regulation intact.

The latest round of talks will fall short of the desired finish line, observers say, due to outstanding technical details and a demand by the powerful chairman of the Senate foreign relations com-

mittee that a final deal should not be concluded before he holds a hearing on February 12.

Senator Jesse Helms is concerned that any deal short of full liberalisation or "open skies" will set a bad precedent for other aviation negotiations to be conducted with Asian countries. He has said any deal short of full "open skies" will enable other airlines to "avoid making tough choices of reform and transparency".

The US has been seeking a deal for some time because

Japan has been denying both US commercial and cargo carriers the right to land in Japan and fly on to other destinations, known as a "beyond right".

The US says that right was guaranteed in a 1952 air pact, but Japan has argued that the 45-year-old pact is outdated.

Under the new pact, US carriers will get increased "beyond rights". Federal Express is expected to be granted its long-delayed petition to fly on to China and the Philippines from Japan.

American, United and Continental airlines will get about 90 new flights to Japan which would be shared with US Airways and TWA.

United will increase its flights from Chicago to Tokyo from six per week to 14 and add new flights to Osaka.

All Nippon Airlines (ANA) and Japan Airlines (JAL) would immediately expand their flights into the US. United is expected to conclude a code-sharing arrangement with ANA, and American with JAL.

Northwest, the airline which has most flights to Japan, is pushing for the right to team up with other US airlines, or airlines from third countries.

The US sought to end Japan's power to veto lower prices but failed to secure a commitment within the framework deal.

It also unsuccessfully urged a date by which Japan would agree to implement total liberalisation. Instead, the two sides have agreed to return to the bargaining table in three years.

Australia tourism industry in protest

By Gwen Robinson
in Sydney

Australia's tourism industry yesterday attacked the government's decision to help exporters hit by Korea's currency crisis with about A\$300m (US\$200m) in emergency trade finance guarantees.

The protests came after the industry and tourism minister, John Moore, ruled out financial assistance to the tourism sector, only minutes after announcing an emergency short-term credit insurance package for exporters to Korea.

Australian exporters complained that many Asian buyers, particularly in Korea, could no longer secure letters of credit to cover the purchase of Australian commodities. Without extra government assistance, Australia would not be able to compete, they said.

At the same time, tourism executives said their industry was facing equally severe conditions. They warned that collapsing Asian business could cut Australia's tourism earnings, which last year amounted to about \$16bn.

Their concerns intensified when Qantas and Ansett, Australia's two international airlines, cancelled flights between Australia and Korea. Qantas also said it would suspend some services to Asian countries, including Thailand, Malaysia and Indonesia.

On Monday, tourism groups submitted a request for government funding for a special "reinvestment campaign" to promote Australia outside Asia.

"Common sense suggests tourism should be included in any assistance package related to the Asian financial crisis, given the industry's role as a major job provider and industry of the future for Australia," said Bruce Baird, managing director of the Tourism Council of Australia.

NEWS DIGEST

Japan stays top ship exporter

Japan maintained its position as the world's leading ship exporter last year for the fourth year running, but South Korea was close behind in terms of gross tonnage.

Japanese shipbuilders won overseas orders for 310 ships, or 12.96m gross tonnes, during 1997 while Korean rivals took orders for 200 ships, or 12.74m gross tonnes. Japan and Korea together built more than two-thirds of the world's ships. Despite difficult conditions, shipbuilding export orders in Japan almost tripled in December from a year earlier to 37 ships, for delivery between 1999 and 2002. However, the Japan Ship Exporters' Association said the outlook for 1998 was poor due to uncertainty over the yen and instability in Asia.

Competition for a smaller total number of orders could also intensify, as the collapse of the won could be to Korea's advantage. However, a heavy reliance on imported materials means the weaker won raises costs at the same time as it improves export prospects.

Bethan Huston, Tokyo

Porsche Japan

Dealership dispute settled

Porsche, the German sports carmaker, has settled its dispute with its former Japanese importer, Mizwa Motors, which took legal action after the contract between the two companies was terminated last year. Porsche Japan, which handles distribution of the cars, will continue to work with eight Mizwa Motors dealerships, as well as 18 independent operations. Agreement has also been reached for three Subaru dealerships to sell Porsches.

Mizwa Motors filed an injunction last autumn in a court in Stuttgart - where Porsche is based - claiming the German company's termination of the contract was unjustified. Porsche said it had acted in accordance with the contract. The court rejected Mizwa Motors' claim, but the two sides continued to negotiate. Last year, Porsche raised sales in Japan, its most important foreign market after the US, by 9 per cent to around 1,700 cars at a time when the imported car market showed a slight overall decline.

Andrew Fisher, Frankfurt

FILM DISTRIBUTION RIGHTS

EU takes Canada to WTO

The European Union yesterday took its dispute with Canada over film distribution rights to the World Trade Organisation. The dispute centres on Canada's refusal to allow PolyGram, the Dutch entertainment group, to distribute foreign films in Canada, while established US competitors - which control 84 per cent of the Canadian film distribution market - face no prohibition. Brussels says this discrimination runs contrary to international trade rules.

In 1987, Canada decided only companies financing film production in Canada or owning worldwide distribution rights could distribute in the domestic market. However, it exempted US film groups already operating in the country. Polygram, despite investing heavily in the Canadian film-making industry, has consistently been refused permission to distribute "third party" films. Under WTO procedures, if bilateral consultations fail to produce a settlement within 60 days, the EU can ask for a panel to investigate the complaint.

Frances Williams, Geneva

NEWS: INTERNATIONAL

Bid to break arms inspection deadlock by drawing outsiders into technical talks

UN agrees concession to Iraq

By Laura Silber in New York

The chief United Nations arms inspector, Richard Butler, yesterday agreed to include outside experts at technical talks in an effort to persuade Iraq to co-operate with his disarmament mission.

The agreement came as Russia's foreign minister, Yevgeny Primakov, called for a wider number of countries to be represented in the UN disarmament mission (Unscm), diluting the American presence.

Mr Butler held two days of

talks in Baghdad with Iraq's deputy prime minister, Tariq Aziz, in an effort to break the deadlock over weapons inspections and win access to suspected weapons sites Baghdad has put off limits.

Speaking ahead of a final session with Mr Aziz, Mr Butler last night said Iraq had not turned over fresh files on its weapons of mass destruction. "I was basically told there will be no new information. In hard, substantive terms of disarmament, that is probably the most disappointing thing that has been said in the last few

hours," Mr Butler said in an interview with Reuters.

Fred Eckhardt, UN spokesman in New York, said the two sides had agreed to hold meetings with technical experts from the five permanent Security Council countries and Germany on Iraq's ballistic warheads and the nerve gas VX.

The move to expand the group of experts was aimed at dispelling Iraqi complaints that the US and Britain dominate Unscm to keep strict sanctions in force. The UN imposed sanctions, including an oil

embargo, after Iraq invaded Kuwait in August 1990.

Mr Primakov, who broke the last standoff with Iraq in November, yesterday appeared to back Iraq. "The American representatives on these inspection operations should not be ousted but probably they should recruit more international personnel, from France, Germany and even Russian experts," he told a news conference at the Barents Euro-Arctic Council ministers' meeting in Sweden.

An Unscm official yesterday suggested that British

and US officials might be replaced in the mission following a Russian offer last week of 60 experts.

It remained unclear whether Iraq's President Saddam Hussein would now abandon a threat to expel UN arms inspectors within six months unless they certify that Iraq has dismantled its arsenal of deadly weapons.

The last standoff with the UN began last week when Iraq blocked an inspection team led by former US Marine officer Scott Ritter on the grounds he was a spy.

Israeli PM offers troops pull-out

By Bruce Clark
in Washington

Benjamin Netanyahu, Israel's prime minister, yesterday put to President Bill Clinton a cautious proposal for troop withdrawals from the West Bank, and insisted he could muster support for it from his increasingly hawkish cabinet.

The State Department said afterwards the two leaders' meeting had "gone extremely well". The scope and pace of Israeli redeployment from the occupied areas are expected to be at the centre of Mr Clinton's talks this week with Mr Netanyahu and Yasser Arafat, president of the Palestinian Authority.

"We have made a decision to go for peace," said Mr Netanyahu, who has been using his US visit to muster support from Christian conservative groups as well as his traditional backers in the Jewish community.

He declined to give details of his latest ideas on redeployment but said they involved a "withdrawal that will assure our defences".

Mr Clinton is according his Israeli visitor a relatively low-key welcome. But US officials have played down suggestions this amounts to a rebuke to Mr Netanyahu's tough policies. His reception is line with the normal procedure for a working visit, officials have insisted.

Asked if he intended to put pressure on the Israeli leader, Mr Clinton said: "I would not use that word. What we ought to talk about is what both sides can do now" to restart the peace process.

The International Finance Corporation, the World Bank arm for private investment, yesterday launched a \$100m-\$200m closed-end investment fund to invest in companies in the West Bank and Gaza. The fund is aimed at promoting joint ventures between Palestinian and Israeli investors.

NEWS DIGEST

EU sees progress in Algeria talks

The European Union delegation to Algeria said yesterday it had made progress in its dialogue with the government but expressed disappointment that Algeria was not ready to allow United Nations rapporteurs from Geneva to look into the human rights situation.

After a delicate 24-hour visit to Algiers, during which the team met Algerian officials, leaders of the legal opposition and editors of leading newspapers, its head, Derek Fatchett, the UK Junior Foreign Office minister, reassured Algiers of the EU's condemnation of terrorism and its "determination to prevent terrorist attacks and bring terrorists to justice". But EU officials said they were waiting for Algiers to provide specific suggestions and evidence of accusations that some European countries were harbouring terrorist networks.

Mr Fatchett urged Algiers to allow more foreign journalists into the country and reiterated the EU view that transparency was in the government's interest. The delegation will report to the EU foreign ministers' meeting on January 26. The EU presidency now held by the UK invited Ahmed Attaf, foreign minister, to London to continue the dialogue. EU officials were treading carefully in Algiers since the government rejects any form of foreign interference in its six-year conflict.

While the EU was holding its meetings, a bomb exploded on a bus in central Algiers, leaving one person dead and 28 wounded. The Algerian press also reported at least 33 people had died in attacks since last weekend.

Roula Khalaf

ZIMBABWE RIOTS

Government sends in troops

After another day of rioting and looting in Harare, the Zimbabwe government sent in the troops to restore order. The home affairs minister, Dumiso Dabengwa, said the entire army had been put on the alert in case the riots, sparked by a 21 per cent rise in the price of the food staple maize, spread to other parts of the country.

He said the government would not neglect its duty to maintain law and order in deference to "democratic rights", adding that it was clear the disturbances had been orchestrated as well as spontaneous.

For the second day much of Harare city centre was shut, while in the industrial sites on the outskirts of the city and in townships millions of dollars of damage was done, according to witness reports. Businessmen said factories and vehicles were stoned, while police used helicopters to "bomb" rioters with tear gas.

The industry minister, Nathan Shamuyarira, announced that the millers had agreed to retain maize meal prices at existing levels, abandoning their planned 21 per cent increase. The move could result in a subsidy to the Grain Marketing Board.

Tony Hawkins, Harare

LANDMINES CONTROVERSY

Clinton urges export ban

President Bill Clinton yesterday urged the United Nations conference on disarmament to negotiate a global ban on the export of landmines, as a first step towards a comprehensive UN treaty to outlaw the weapons.

The US has publicly backed Gro Harlem Brundtland, former Norwegian prime minister, as the next head of the World Health Organisation to succeed Hiroshi Nakajima when he steps aside in July.

Frances Williams, Geneva

Russia raises Turkmen hackles

Heavy-handed move to control energy resources is upsetting former Soviet states

The sight of Victor Chernomyrdin, Russia's prime minister, waving a big pointer stick at a regional map seemed to Turkmenistan's leaders to sum up everything wrong in the relationship between the two countries.

In recent weeks, Russia has been scrambling to reassert its influence in the resource-rich former Soviet republics of central Asia.

But diplomats suggest that Russia's hegemonic attitude, combined with its heavy-handed attempts to control the development of central Asia's energy resources, may only encourage the five republics to develop stronger ties among themselves, and with other powerful neighbouring states, such as Turkey, Iran and China.

The shifting balance of influence was graphically highlighted last week when Mr Chernomyrdin made a rare visit to Turkmenistan and Tajikistan in an attempt to patch strained relations.

Mr Chernomyrdin, former head of the giant Gazprom gas monopoly and one-time senior member of the Soviet Communist party, still appears uncomfortable with the fact that such countries are now independent sovereign states. Indeed, he seemed more intent on lec-

turing the region's leaders than on listening to them. The Turkmen leadership visibly bristled at such a stance and Saparmyat Niyazov, the Turkmen president, condemned Moscow's lingering imperialistic attitudes.

At the heart of these tensions is the issue of gas. Gas accounts for two-thirds of Turkmenistan's export revenues. But in practice, the country gets paid in cash for only about half of its gas exports to the rest of the Commonwealth of Independent States (CIS), and Gazprom has shut competing Turkmen gas out of the currency markets in Europe.

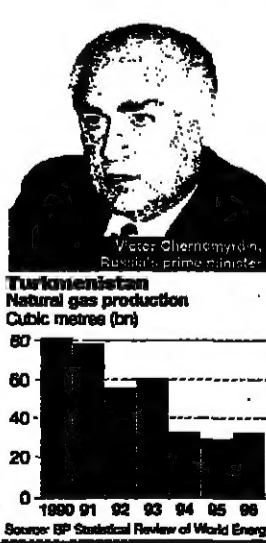
Last March, Russia even cut off Turkmenistan's northern pipeline to Ukraine and the Transcaucasus after Mr Niyazov suspended a Russian-Turkmen gas venture, in which Turkmenistan received a 51 per cent share.

The move hit Turkmenistan's economy hard, and gas output more than halved in the first 11 months of 1997 to 15.8bn cu m compared with the same period in 1996.

Both sides had hoped Mr Chernomyrdin's visit could help resolve the dispute but failed to agree over the price of Turkmen gas.

Russia raised its initial offer from \$32 per 1,000 cu m to \$38, but Mr Niyazov stuck out for \$42. "We will come to

Turkmenistan's gas: under Russia's shadow



the price we have suggested. Agreement can be reached only on a mutually advantageous basis, which is a purely economic theme, instead of political," he said.

Nevertheless, the Turkmen leadership suggested Mr Chernomyrdin's visit had marked the beginning of a more open relationship and expressed the hope the dispute could be resolved before the visit in March of Boris Yeltsin, Russia's president.

The Russians would certainly appear to have considerable leeway to meet Turkmenistan's demands. Russia

currently sells gas at the Ukrainian border for \$33 per 1,000 cu m, and at more than \$80 in western Europe.

But some believe Russia was only brought to the negotiating table by Turkmenistan's developing relationship with Iran. Last month, the first natural gas from Turkmenistan was pumped into northern Iran. It was the official opening of a pipeline which will be capable of exporting 20 bn cu m per year to the lucrative market of Turkey.

Turkmenistan may be using the threat of the proj-

John Thornhill and
Charles Clover

سكزا سن الاصل

Row over HK cash hits Conservatives

By John Riddling in Hong Kong and John Kamphor in London

The opposition Conservative party was last night embroiled in a fresh funding controversy after William Hague, the party leader, said he would return a film donation from a Hong Kong media group only if it was proved that the money had come from illegal sources. The Oriental Press Group claimed senior party officials knew of conditions attached

to the donation. The media company, which is controlled by the family of a businessman who fled Hong Kong for Taiwan to avoid drug trafficking charges in 1978, described the conditions as "a private affair". This is thought to mean the dropping of drug-trafficking charges against Ma Sik-chun, founder of the group.

The Oriental Daily News, the group's flagship newspaper, yesterday printed a letter from Ma Ching-kwan,

son of Ma Sik-chun and an executive director of the family company.

The letter, sent to Brian Mawhinney, then chairman of the Conservative party, a month before last May's UK general election, said "commitments" had not been honoured and that the film sum should be returned.

Conservative headquarters refused to comment on the disclosures directly. The governing Labour party called on the Conservatives to hand the money immedi-

ately to charity. Mr Hague repeated his pledge to support legislation banning foreign donations. "We have not accepted any money with strings attached," he said.

"We would not accept money from illegal sources. If ever that turned out not to be the case, if it had been proved that was not the case, then of course the money in question would be returned." Aides of Mr Hague said the onus of proof did not lie with the Conser-

vative party.

The timing of the allegations was particularly unfortunate for Mr Hague, who has sought to draw a line under the sleaze sagas that afflicted the previous Conservative government.

In his letter to Mr Mawhinney, Mr Ma said he and his family had been a "frequent and major contributor" to Conservative coffers. Referring to "various conversations regarding my family's expectations in supporting your party at a difficult time

in its history", he said: "There is no doubt that the expectations of my family were clearly understood by all concerned."

Chris Patten, former UK governor of Hong Kong, denied a suggestion by the group that he had been involved in the fundraising. "I played no part whatsoever in raising funds for the Conservative party as governor of Hong Kong," he said. "It would have been wholly wrong to play a role in Conservative party fundraising."

Cash leaves sour taste for party

The Conservative party is just the latest target in the sights of Hong Kong's Ma family. Claims in the Oriental Daily News, the group's flagship newspaper, that the Conservative party accepted a film contribution but failed to deliver on conditions has again placed the company firmly in the headlines. It follows feuds with other local publishers, notably the South China Morning Post.

The latest assault centres on sensitive claims - both about British political funding from the territory's tycoons and the background of the Ma family. In a series of articles this week, the Oriental Press alleged that a film donation to the Conservative party in 1994 was made with certain conditions on a "personal matter".

Although officials at the newspaper group decline to elaborate, it is thought to mean assistance with the dropping of charges against Ma Sik-chun, one of the founders of the Oriental Press and father of Ma Ching-kwan, now an executive director but considered the main power at the company.

C.K. Ma's father and his uncle, Ma Sik-yu, known as "white powder Ma", left Hong Kong for Taiwan in the 1970s amid allegations of drug trafficking. Ma Sik-chun had appeared in court

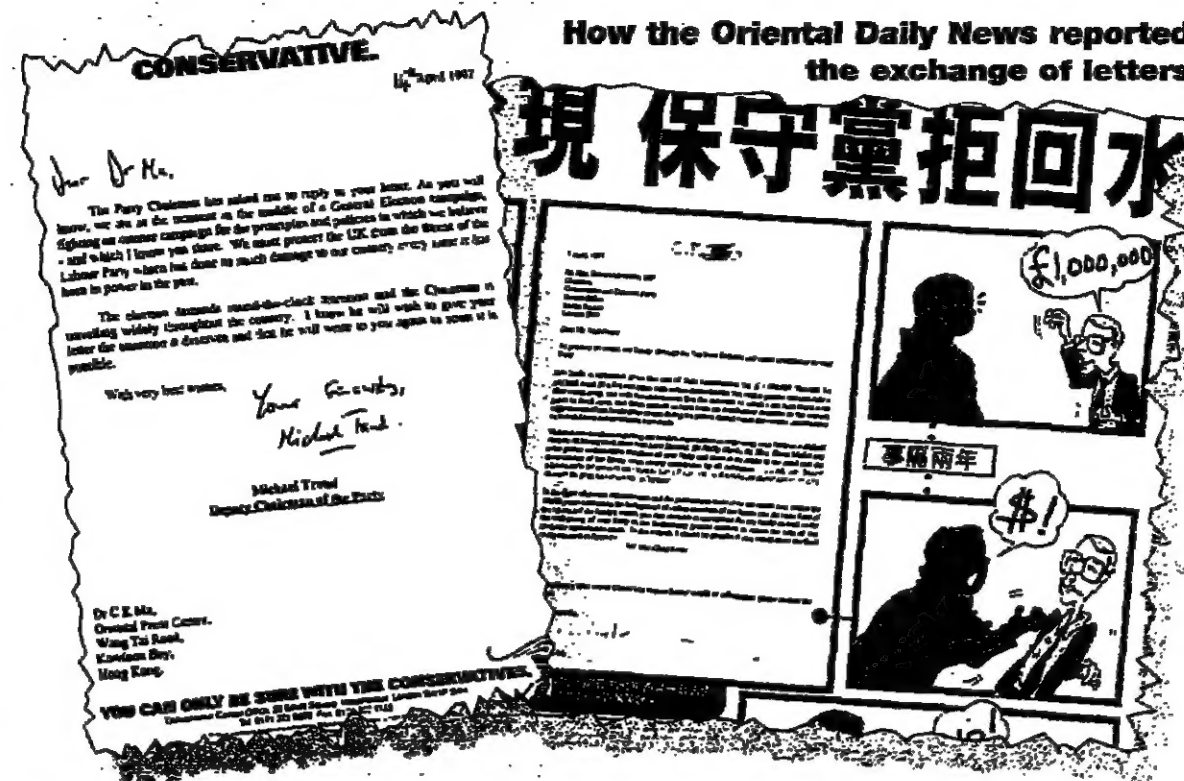
in the 1970s on a drugs charge, but then disappeared. It later emerged he had travelled by fishing junk to Taiwan, where he has remained.

While keeping silent on the specific conditions attached to the donation, the Oriental Press is now kicking up a storm about funds. An alleged receipt for a film donation, invitations to dine with John Major, and a Downing Street menu from September 1994 have all been splashed across the Oriental Daily News.

The newspaper claimed a former senior Hong Kong official had used M16 contacts to besmirch C.K. Ma's reputation in Australia. A letter reprinted yesterday, which had been sent to Brian Mawhinney, then Conservative party chairman, claimed that senior Conservative officials knew of the conditions for the donation.

"Various conversations regarding my family's expectations in supporting your party at a difficult time in its history took place with Lord Hambro, Sir Philip Harris, Rt Hon David Mellor and other senior parliamentary members of your party," said C.K. Ma in his letter. "There is no doubt in my mind that the expectations of my family were clearly understood by all concerned."

Mr Mellor declined to com-



The figure on the right of the cartoons is John Major, who was UK prime minister from 1990 to 1997

ment. Lord Hambro and Sir Philip could not be reached. William Hague, the Conservative party leader, said: "When I became leader of the party, I made it absolutely clear we are not accepting any foreign money in future."

In another swipe at the former British administration, the Oriental Press claimed it had been betrayed over the establishment of the Eastern Express, an English-language daily newspaper which was launched in 1994. According to the Oriental Press Group, the Express had been launched with the backing of the British administration and the promise of government advertisements. The admin-

istration, it claimed, sought a counterweight to the South China Morning Post, which had been acquired by Robert Kuok, a prominent businessman with strong connections in China.

An official in the former administration described the claims in the Oriental Daily News as "rubbish". Whether let down by the administration or not, the closure of the Eastern Express in July 1996 came as a blow to C.K. Ma. The title had been launched with high hopes.

Mr Patten said yesterday: "I played no part whatsoever in raising funds for the Conservative party as governor of Hong Kong. It would have

been wholly wrong to play a role in Conservative party fundraising."

The collapse of the Eastern Express amid heavy losses was the first failure for the group, which had grown since its foundation in 1969 to become one of the territory's biggest publishing groups, with annual sales of HK\$2bn, and with the Oriental Daily News commanding a dominant position in the Chinese-language press.

The closure was accompanied by the retirement of C.K. Ma as group chairman and his replacement by his brother Ma Ching-fai. But his influence remains strong at the newspaper group, while the newspaper itself

has taken an increasingly aggressive tone towards the establishment.

Following a ruling against it in an appeals court, the Oriental Daily said it would "teach a lesson" to Gerald Godfrey, the presiding judge, and sent reporters to pursue him. Other recent attacks against the judiciary included a column entitled "The Judge is a White Pig".

Legal groups, human rights bodies and even the territory's legal department reacted with concern. The secretary for justice said her department was examining whether proceedings for contempt of court could be taken "as a matter of urgency".

Output of cars hits 20-year record

By John Griffiths in London

Car production in the UK reached a 20-year record last year, with nearly two out of every three cars built destined for export, government figures showed yesterday. A total of 1,697,966 cars was produced, up 1 per cent on 1996, with output of 2m a year projected for early next century.

But the motor industry also disclosed yesterday that its success, reflected in nearly 2m annual sales and a car population expected to reach 28m next year, is being achieved at a heavy cost.

The annual bill for road congestion last year reached £10bn (£16.3bn), according to the tenth annual Lex Report on Motorway Congestion, commissioned from the Mori polling organisation by Lex Service, the UK car distribution group.

Congestion has added an average of two and a half hours a week to work-related journeys since 1990: £500m a year to the cost of shopping trips and £900m to that of the morning school run, according to the report's survey of 1,500 car and truck users. The report predicts that the car population will rise over the next five years by 10 per cent.

The enormity of the task faced by the government to persuade motorists - out of their cars and on to trains and buses was also underlined. The report found that without big investment to make public transport more attractive, only 7 per cent would willingly use public transport even if congestion were to double over the next few years.

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External regulation for Lloyd's is backed

By Christopher Adams, Insurance Correspondent

The government is to back proposals that the Lloyd's of London insurance market be regulated externally. A statement ending the uncertainty that has surrounded the insurance market's future may come today.

Heien Liddell, a minister at the Treasury, is expected to endorse proposals put forward by Lloyd's last year that it be brought under the Financial Services Authority, the new integrated regulator for the City of London.

The future of the regulatory regime governing Lloyd's has been in doubt until now. The government did not mention the insurance market when it launched the FSA last October.

But Lloyd's was confident its plans would be incorporated in the new Financial Services Act when it is published in draft form this summer. It says the switch to external oversight could be made without amending the Lloyd's Act, which gives it statutory powers to regulate its own affairs.

"We have had close discussions with the government and so far there have been no insurmountable obstacles," said David Gittings, Lloyd's director of regulation. The Treasury may recommend that the FSA has powers enabling it to take action were Lloyd's to fail in its own day-to-day regulatory duties. It is also considering whether managing and members' agents operating at Lloyd's should be licensed by the FSA.

In addition, rules governing the auction system, under which the right to participate on Lloyd's insurance syndicates is sold, may need to be brought into line with regimes governing exchanges elsewhere.

Inadequate regulatory control was partly to blame for the disastrous losses Lloyd's suffered in the late 1980s and early 1990s.

Lloyd's yesterday announced plans to tighten regulation of insurance brokers, the intermediaries acting on behalf of clients with whom it transacts business, and members' agents, who advise capital providers.

Mr Gittings said it would

require brokers to register individually and meet new codes of conduct. Members' agents would have to conform with standards that apply to other financial advisers. Some members' agents could face disciplinary action following an investigation into the quality of advice given to Names, Lloyd's traditional backers, during capacity auctions.

An inquiry into underwriting activity has shown concerns about the possible reappearance of a damaging "spiral" of reinsurance were unfounded.

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Dutch premier chides Blair over Emu

FT Reporters in London and The Hague

The Dutch prime minister, Wim Kok, last night put pressure on Tony Blair, his UK counterpart, to adopt a more positive approach to European monetary union, saying that sterling should join the new currency as early as possible.

Shortly before the British prime minister gave a lecture in the Netherlands on his European policy, Mr Kok - regarded as a political

soulmate of Mr Blair - showed that EU members remain uncomfortable with the UK's equivocal approach to Emu.

Mr Kok said that "countries that meet the criteria should be prepared to participate as soon as possible" and that "this also applies to the United Kingdom". Addressing Mr Blair, Mr Kok continued: "I would therefore urge you not to wait too long."

However Mr Blair's speech was cool towards Emu and he made no

reference to the official policy of favouring monetary union in principle. His official spokesman insisted there had been no "watering down" of the government's Emu approach.

The UK prime minister said simply that "we believe a single currency can make sense in a single European market", but warned that "labour mobility and fiscal transfers" would not be "realistically available" to cope with economic shocks within the Emu area.

For monetary union to work, there

would therefore be "a very high premium on genuine and sustainable convergence and on the adaptability of our industry and the employability of our workforce".

Mr Blair also hailed the creation of an alliance of "politicians from all parties" in the UK to promote the cause of the European Union. He told journalists it was "important to co-operate across traditional party lines."

Editorial comment, Page 17

Privatisation Shareholders in former state-owned operations warned that the next few years will be far from easy

Increase in rail revenue urged Regulator's tough move may curb water payouts

By Charles Batchelor, Transport Correspondent

Britain's privatised train operating companies must increase passenger revenues by up to 93 per cent by the end of their seven-year franchises if they are to compensate for declining government subsidy, according to a study of the rail industry.

This is on top of cost savings rising to £643m (£1.05bn) a year or 14 per cent of present levels after seven years, the study said. It was compiled by John Nelson, a former managing director of the south-east region of British Rail, the former state network.

The private owners of rail companies have often committed themselves to reducing levels of subsidy steeply

over the lives of the franchises, raising fears that some may not be able to expand their businesses sufficiently.

Mr Nelson said some of the train operators appeared to be enjoying the benefits of the buoyant economy without being sufficiently aggressive in expanding their businesses. In theory, all of them

"should be capable of meeting the growth targets required".

"At the top of my list of what they need to have in place is an innovative management, particularly in the marketing area. They need to acquire new rolling stock and develop new services. I can see this happening in some companies but not yet

on a sufficiently wide canvas," he said.

The move from national marketing campaigns by BR to campaigns by individual train companies has led to a decline in awareness of the railways and of promotional fares for families and young people. "A substantial branding exercise by the train operators may be needed."

The growth rates needed to compensate for declining subsidies and to provide a return to shareholders range from 1 per cent at South West Trains to 93 per cent at Cardiff Railway in Wales.

Virgin Rail has the most challenging revenue target of more than doubling revenues on its 15-year west coast main line franchise between England and Scotland.

Water company dividend payments are likely to fall sharply after 2000 because of a tough regulatory squeeze on profits, Ofwat, the water industry regulator, has warned. The companies include 10 former big state-owned utilities.

Ian Byatt, Ofwat director-general, said his review of water charges next year would "switch gear to lower profits and there won't be resources for anything other than a prudent dividend policy".

He said the double-digit increases in the dividends

UK NEWS DIGEST

Expansion hope for City airport

John Prescott, deputy prime minister and chief transport minister, yesterday intervened in a dispute about doubling the number of flights at London City Airport in the Docklands district in the east end of the capital.

London City Airport wants to double flights from 36,500 to 73,000 a year to meet growing demand for travel to European cities from City of London business people.

Mr Prescott's intervention came as the London Docklands Development Corporation's planning committee decided provisionally in favour of the plan. It faces a rival in Southend Airport, some 75km east of London, which has just won outline permission for a new railway station and terminal building which would allow it to cater for up to 300,000 passengers a year in the same market.

Passenger numbers at London City grew by 70 per cent to 1.2m last year. Its plan would allow it to take 3m passengers by 2005. Many local residents have objected to the increased noise.

London City, built ten years ago by Mowlem, was bought by Irish entrepreneur Dermot Desmond for £23.5m (\$38.30m) in 1985. It moved into operating surplus in 1996. Flights go to 20 destinations including Paris, Amsterdam, Brussels and Zurich.

Brian Groom, London

BRITISH AIRWAYS

Check-in computer crashes

The British Airways check-in computer system crashed yesterday, resulting in the cancellation of 30 flights. BA said the crash was caused by a power failure at one of its buildings at London's Heathrow airport.

BA said that the failure affected its computer system worldwide, causing delays to flights from several airports. However, cancellations were limited to London. The airline had to cancel two departures from London Gatwick airport and 18 European flights and long-haul flights from Heathrow.

BA said it could not say how many passengers were affected, although it is likely to have been several thousand. The airline said it had booked all passengers affected on to other flights. The airline said it did not expect the failure to affect today's flights.

The scene at Heathrow's Terminal 4 yesterday morning was one of confusion, with long queues at paralysed check-in desks. There were groans when BA staff announced the cancellation of flights to many destinations, including Dubai, New York, Montreal and Tokyo.

Michael Skapinker and George Parker, London

HEATHROW RAIL LINK

Breakdown setback for service

The £550m (\$895m) fast rail link between Heathrow airport and central London suffered a setback on its first day of operation on Monday when one of its trains broke down.

The Heathrow Express service, which runs from London Paddington station every 15 minutes, was suspended in the evening, nearly three hours before the scheduled last train of the day. A rescue train sent to haul the failed unit to a depot also broke down.

The Heathrow Express will be a faster and more expensive alternative to the present London Underground service, which follows a different route from central London to the airport.

Charles Batchelor, London

SOUTH KOREAN INVESTMENT

Halla pledge to protect factory

Halla Euro Enterprise, an offshoot of the Halla shipbuilding conglomerate of South Korea which was declared bankrupt last month, yesterday announced job cuts at its excavator and lift truck factory in South Wales.

The factory, opened by Queen Elizabeth last May, was the first South Korean factory in Wales. Managing Director S.J. Kim pledged that the company intended to keep the plant open: "During the last two months, Halla has been reconsidering its European business plan and has reluctantly concluded that the current economic situation in the Far East makes it more cost effective to increase imports from Korea of the equipment that Halla sells in Europe."

FORD PROJECT IN US

Visteon to invest \$35m in plant

Visteon, Ford's components subsidiary, is investing £22m (\$35.86m) in its factory in Swansea, south Wales, to make parts for a new vehicle in the US.

The company said the spending reflected labour flexibility at the plant, which makes car parts such as axles, brake drums, discs and hubs. The new contract is for an aluminium transfer case to be fitted to a Ford vehicle, as yet unidentified.

Haley Simonian, London

CREDIT CARD SPENDING

Slowdown 'reflects rate increases'

Growth in credit and debit card spending slipped in December to its lowest rate for more than a year according to the Credit Card Research Group. It said the slowdown reflected the five interest rate increases imposed since last May and the shrinking pool of retailers who decided to accept cards in payment for the first time.

The first official estimate of total retail sales for December will be published today. Credit and debit card spending totalled £10.3bn (£16.78bn) in December, up 13 per cent on a year earlier.

Monthly card spending was showing 25 per cent growth early in 1997 and 15 per cent as recently as November 1997. Elizabeth Phillips, director of the group, predicted that the deceleration in growth would continue into the current year.

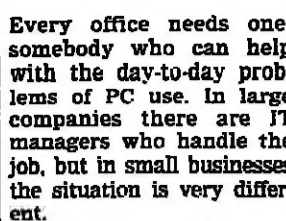
Robert Chote, London

INFORMATION TECHNOLOGY

Eagle Eye • Louise Kehoe

Networks for all

Lack of a user-friendly PC nerd should not stand in the way of small businesses sharing the benefits



Every office needs one: somebody who can help with the day-to-day problems of PC use. In large companies there are IT managers who handle the job, but in small businesses the situation is very different.

Typically, there is somebody in the office who becomes by default the office nerd: a self-taught expert with an aptitude for computing. But the technical knowledge of the office nerd often runs out when it comes to computer networking. This is one reason why small businesses tend not to install local area networks. Yet the internet has given many small businesses and individual PC users a taste of the benefits of networking, including e-mail and file sharing. Intel, which this week launched a range of networking equipment aimed at businesses with 50 or fewer employees, believes the market is ripe for networking products that do not tax the knowledge of PC users (www.intel.com).

The new plug-together system is "dead simple" to install, said Jim Johnson, product manager. "It takes only about 30 minutes." For the sceptical, Intel promises telephone support, even on weekends and evenings.

The cost benefits of creating a local area network are persuasive if the alternative is connecting computers via the internet. Five PC users with internet accounts, for example, would pay at least \$100 a month for the service, plus the costs of phone lines which may run to an additional \$300 or more. With a Lan, this can be reduced to a single phone line and account for internet access at a cost of about \$80 a month. The router, hub and network interface cards needed to set up the network cost about \$1,500 to \$2,000, depending on the speed of the local network. Cabling to link the PCs is extra, but additional

savings can be made by cutting the number of printers and other peripherals. So, if networking is getting easier and cheaper, how long before we have computer networks in the home as well as the small office? The multi-PC home is becoming more common, but most homeowners are not keen to drill through walls to install new wiring. Alternatives such as wireless Lans or networks that plugback on home electrical wiring may be the answer. But the cost will have to come down - to perhaps \$500 - if the home PC network is to take off. At that price it might be worth saving the trip from the living room to the home office to swap a computer disk.

"When did you last back up your files?" The question was blunt and to the point. It elicited the same sinking feeling you get when blue lights flash behind your car or the teacher asks for your forgotten homework. It is too late for excuses. It all began with a flash of lightning. Then the heavens opened and the lights went out, only to flicker back on a few seconds later. After making a few ominous beeps, my computer died. The hard disk had crashed.

A notebook is not a bad idea. How often have you looked for a bookmark on your home PC only to realise it is on the machine at work?

Share your views in the Eagle Eye discussion group on the FT web site (www.ft.com) or contact Louise Kehoe by email on louise@ft.com

and in the process parts of the operating system were wiped out.

As it turned out, I was lucky. With the help of a technically savvy friend the computer was revived and no files were lost. But that back-up question still makes me shudder. There is a lot of information on that machine that would be hard to replace.

Backing up files is a chore that many of us ignore, in spite of our growing dependence upon PCs. The advent of removable cartridge drives such as Iomega's Zip Drive and SyQuest's SparQ make it easy to make back-up files in a few minutes. Yet few PCs come with these drives already installed because manufacturers are cutting corners in their efforts to keep PC prices low.

For many users, it may be a false economy. If you are really serious about ensuring your files cannot be destroyed, online storage may be the answer. These services provide data storage on remote computers so that you do not have all your eggs in one basket. Examples include Atrivia (www.atrivia.com), which charges about \$15 a month.

Of course, this means putting precious files under someone else's control and trusting they will be safe and secure. If storing back-up files electronically is not an option, keeping paper copies of important documents may be the answer. That is what John Miller of netDirector Partnership advocates. He has designed a loose-leaf notebook for jotting down web site and e-mail addresses; a back-up to the "bookmarks" and electronic address book on your computer (www.miller-and-miller.net).

Although it may seem a backward step, a notebook is not a bad idea. How often have you looked for a bookmark on your home PC only to realise it is on the

machine at work? And if you do ever face that back-up question, you will have a much better answer than I did.

Another Intel innovation making its debut this week is Quick Web software, which promises to speed up delivery of web pages containing big photos or other graphics. Using compression technology Quick Web squeezes graphics so that they move more quickly over the net. It also caches or stores images on the local server of an internet service provider the first time a user requests the web page. Subsequent requests are delivered from the cached source instead of a distant web server.

The delivery time of graphics-rich web pages can be halved, says Intel. So far, two internet service providers, Netcom and Erols Internet, are offering Quick Web, each for a premium of \$5 a month. Intel will get a share of the revenues.

Web publishers are not all thrilled with the trend towards local caching, which makes it hard for them to count the number of times people access their pages. These numbers are used to attract online advertisers, much like the circulation numbers of traditional paper publications.

The technology may force commercial web site operators to find other ways to value their content rather than the raw numbers of internet users who happen upon their pages. Perhaps local caches may even hold the hidden promise of higher quality web site content. That would be a real step forward.

Share your views in the Eagle Eye discussion group on the FT web site (www.ft.com) or contact Louise Kehoe by email on louise@ft.com

Data transmission • Richard Poynder

Last mile is the longest

Faster downloading from the internet is in prospect

Most users of the internet will have experienced frustration at how slowly data is downloaded to their PC. The information superhighway, we are often reminded, is still under construction. Fortunately, several new technologies promise to improve the situation.

Much attention is given to developments in the capacity of the high-speed "backbones" of the internet. Yet for most people the big bottleneck lies in the copper wires of the phone line that connect their computer to the local telephone exchange - colloquially known as "the last mile". Like cars leaving the motorway, our packets of data drop to crawl speeds once they leave the fibre optic cables at the exchange.

Gemini, a new transatlantic fibre optic cable jointly developed by WorldCom and Cable & Wireless, can transmit data across the backbone at 30mb bits per second, or 30 gigabits per second (gbps). But the speed with which data can enter homes is governed by the rate at which the modem can transport it over the "last mile" - in most cases still 28.8 thousand bits per second (kbps). So Gemini can transmit data at up to 1m times the speed of the average modem. "It is a bit like trying to drink from a fire hose," says David Howard-Jones, marketing director for UUNET UK, WorldCom's internet subsidiary.

Copper wires are ideal for transmitting analogue voice signals, but less adequate for moving digital data at high-speed. A remedy would be to extend into the home the high-speed fibre optic cable connecting all the national telephone exchanges.

That is easier said than done. "The civil engineering of pulling in fibre to the home is horrendous," says Professor Peter Cochrane, head of research at BT's Martlesham Laboratories. "It would cost about £15bn to do the whole of the UK."

Much effort has been expended on increasing the speed with which modems can move data through existing phone lines. Until recently the fastest rate was 33.6kbps. But last year new-style modems went on sale which can modulate the transmission signal digitally so that users can receive data at 56kbps (but they can still send at only 33.6kbps).

Then US-based Diamond Multimedia announced it had developed a technology, called Shotgun, that can double transmission speeds by "bonding" two phone



lines. When used with the new 56kbps modems Shotgun can transfer data downstream (to the user) at rates as high as 112kbps. But as Shotgun needs two modems, as well as two phone lines, there are doubts that the bonding technology will be widely adopted in Europe when available this year.

Many believe the analogue modem has reached its limits. "You can keep tweaking the protocols," says Mike Reed, director of product marketing at Diamond Multimedia, "but 56K is probably about as fast as you can go on a single phone line".

Internet cognoscenti hold out greater long-term hope for the so-called xDSL technologies. The most prominent of these is ADSL (Asymmetric Digital Subscriber Line), a modem-like technology that can send data at up to 8m bits per second (mbps) across existing phone lines. Using ADSL BT expects to offer speeds 50 times faster than existing modems.

The drawback is that, unlike analogue modems, ADSL requires a terminal device at both ends of the cable, and local exchanges have to be rewired. And as it was developed for the broadband requirements of video-on-demand, ADSL can at present transmit data away from the user at only between 16 and 500kbps. To meet the more interactive demands of the internet, several alternative DSL technologies are being developed to permit faster upstream transmission. These include HDSL and VDSL. Rockwell and Nortel also recently announced a new "lite" version of ADSL that will enable data to be transferred at up to 1mbps, or 17 times faster than a 56kbps modem, using the existing equipment. "We have developed a clever bit of technology that avoids the need to

rewire the telephone exchange," says Ian Vance, Nortel Europe's chief engineer. "You can now just plug a new card into the existing system."

An alternative approach to easing the last mile bottleneck is to bypass the telephone network altogether. One of the most promising technologies here is cable and companies have recently been conducting cable modem trials. Last year, for instance, Telewest, the UK cable company, tested devices capable of transferring data at rates as high as 10mbps each way. For the moment, however, disagreement about standards hampers implementation.

Other alternative infrastructures include satellite and fixed wireless. Using the DirectPC service from Hughes Olivetti Telecom, for instance, users can receive data at 400kbps. But the speed advantage is far less than that promised by ADSL and cable. In the UK it also costs £450 for the satellite dish, PC card and software, and £15 for a monthly subscription. A more significant hurdle is that there is no satellite return path, so users still need a modem and an account with an internet service provider to transmit data.

Fixed wireless is more hopeful. Today fledgling UK wireless provider, Ionica, offers narrow-band telephony services alone. But

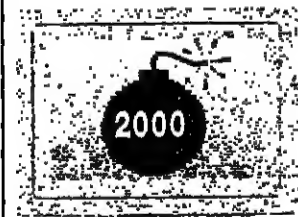
with a top speed of only 128kbps ISDN is now not much faster than two Shotgun-bonded 56K modems. Ms Hewett sees a bleak future for ISDN, which is an early DSL technology. In a recent Ovum report she predicts a halt in its growth by 2003, as xDSL technologies become more popular.

By then cable, wireless and satellite technologies will also be more serious competitors. Good news, says Ms Hewett, for the consumer: "Where at the moment customers [who want faster access] can only go with ISDN, in the next couple of years they are going to have a choice."

Millennium Watch • Bethan Hutton

Double trouble date

Managers in Japan, where two date systems are used, are waking up to the problem



Computerisation came later to Japan than to many western countries, and awareness of the millennium bug is also lagging behind. As if that were not enough, the year 2000 will arrive several hours earlier in Tokyo than in London or New York.

Many Japanese managers are only now waking up to the problem. Research last year found that a worrying 12.5 per cent of managers still said they did not understand or were not aware of it. Even so, that was a distinct improvement from 1996, when more than half were unaware.

The fact that Japan uses two dating systems adds to the confusion. The western system is used when dealing with the outside world, and sometimes at home as well. But often in domestic correspondence, accounts and so on, 1988 will be written as Heisei 10 - the 10th year of the reign of the current emperor.

In theory, computers using the Japanese dating system should be immune to the millennium bug or to similar problems - no emperor has yet reigned for 99 years or more. Unluckily, although the software applications may follow the Japanese way, in most cases

the underlying operating systems are based on the western system. Only a handful of domestically-oriented companies have systems which use the Japanese dates exclusively.

Computer industry sources say that sectors with large-scale computer networks heavily dependent on date-related information processing, such as banking and the travel industry, already have the Y2K problem well in hand, although preparations may not be completed until 1999. But among smaller companies, with medium-sized computers, it is a different story.

The Ministry of International Trade and Industry - the powerhouse guiding Japanese industry - has been carrying out surveys of a variety of companies. The last, in July 1997, found that 15.9 per cent of companies had already dealt with the problem, but a larger proportion - 18.8 per cent - had not even started. About a quarter were working on it, or said the issue was under investigation.

Small to medium-sized businesses were slowest to respond to the threat, since computer systems were seen as less central to their businesses. Important Japanese computer

manufacturers like Fujitsu and NEC report similar findings.

Miti also found that 39 per cent of companies capitalised at less than ¥100m did not have any IT staff, relying instead on outside contractors, which meant that no one in management was well informed about computer-related problems.

Not surprisingly, 60 per cent or fewer of managers at smaller companies regarded the Y2K bug as a serious problem, compared with nearly 80 per cent at the largest companies. "Smaller companies may cause confusion," Miti warns.

One risk is that problems at smaller companies may work their way up to affect larger companies, particularly manufacturing companies using a just-in-time supply system. The large companies themselves may be well prepared, but smaller suppliers may not. If glitches lead to administrative or production hold-ups at suppliers of key parts in 2000, big names could find production lines held up.

The economic climate is not helping, again particularly at smaller companies, which are suffering a credit crunch.

Banks are reluctant to provide loans to smaller companies, so lack of funds for upgrading systems is becoming a problem.

Computer experts say that the slow Japanese response to the Y2K threat means that there is likely to be a surge of demand for solutions from late this year. Solution providers are gearing up for the crunch.

At larger companies, the Japanese system of lifelong employment and relatively little use of outsourcing mean that some Japanese companies are in the fortunate position of still employing the staff who developed and introduced computer systems in the 1970s. But in Japan, as elsewhere, there is still likely to be a shortfall of programmers familiar with older computer languages such as Cobol.

Japanese companies have been looking abroad for help. Fujitsu, NEC and IBM Japan all have pilot projects under way with Indian software engineers, but face a language barrier: Indian programmers are well-versed in Cobol-based programs, but the Japanese-language documentation is another matter. The 100 or so Japanese-speaking computer programmers in India are in high demand.

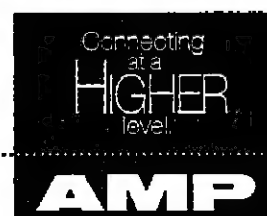


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FINANCIAL TIMES SURVEY

Wednesday January 21 1998

INDIAN ENERGY

State electricity boards are at the heart of power problems, says Mark Nicholson

Uphill task for the reformers

There are few outright optimists in India's energy sector; more common are various shades of pessimism. Seven years after the liberalising Congress government of P.V. Narasimha Rao, the prime minister who ushered in India's economic reforms, opened the state-dominated power sector to private and foreign capital, there have been more frustrations than successes.

Power, and more broadly energy, have been at the top of the government's agenda since Mr Rao, as they have of each of the three administrations that followed.

And no wonder. Blackouts are routine in most Indian states, and even the pampered VIP enclaves of New Delhi often go without power. Last year the average power deficit nationwide was 9.2 per cent and peaking shortages were 18.3 per cent. Moreover, this deficit has been widening. Demand for electricity has grown by around 8 per cent for the past couple of years, while the rates of increases in supply have been lagging, at least until late last summer, at just 2 to 3 per cent.

While governments have opened the doors to private and foreign investment in power generation, the response has been disappointing. After an immediate rush of interest from overseas, foreign investors have found the

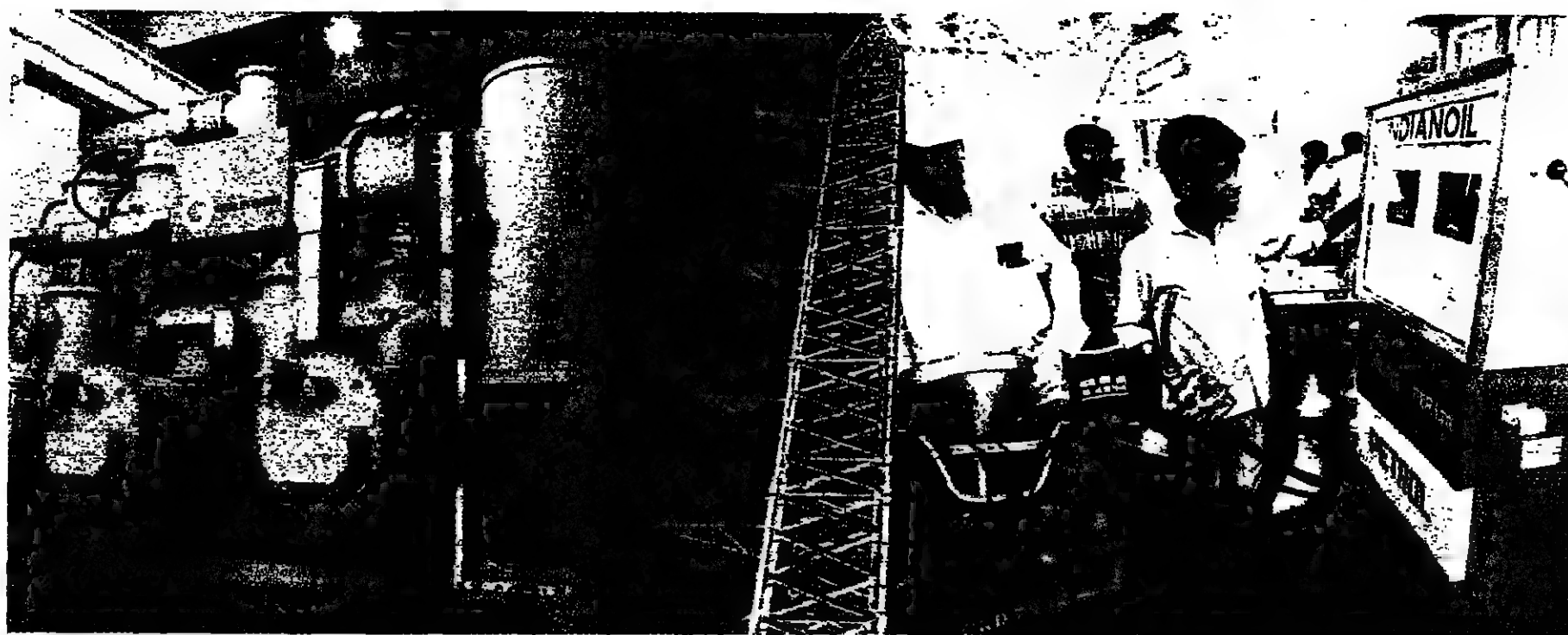
going tough.

The Rao government's hopes of pump-priming investor interest by offering sovereign "counter-guarantees" to eight "fast track" power projects backfired. The notorious cancellation, in 1996, by the Maharashtra state government of the \$2.3bn Dabhol power plant, backed by Enron, the US energy group, set a trend for state government reviews of the pricing and project costs of the new - to India - independent power producers. Enron's project was eventually rescheduled and is due for commissioning later this year, but much damage has been done.

The Maharashtra government's review of Dabhol set a trend, and most other foreign-backed power projects also found themselves mired in lengthy renegotiations with state governments, whose state electricity boards (SEBs) are the purchasers of the proposed private power.

To date, therefore, India can boast just 660MW of commissioned power from projects begun under the new private power policy launched in 1992. "We really have not done anything substantial," says R.K. Patcha, director of the private Tata Energy Research Institute (TTRI).

The problems have proved manifold. At one level, they derive from the com-



plexities inherent in India's constitutional division of power policy between the central government and the states. The centre can set policy, but the states - which in most cases are the final buyers of private power - must implement.

Frustrated project developers have, as a result, found their projects bounced back and forth for dozens of different approvals and reviews between Delhi and the state in which they aim to build the power project.

Most serious, however, has proved the general inability of India's chronically inefficient, politically controlled and loss-making state electricity boards to offer commercial guarantees for the purchase of power - the reason the government offered the sovereign guarantees in the first place. Virtually all India's 19 SEBs are effectively bankrupt - unable easily to pay commercial private power tariffs or, equally critically, to invest in their own power generation projects. The latest Planning Commission review of SEB finances found that commercial losses had risen

from Rs15.6bn in 1985-86 to Rs75.2 by 1994-95, with arrears of an equivalent sum.

The chief culprit is the general, and politically motivated, tendency of SEBs to offer cheap or free power to farmers and, to a lesser extent, domestic power users. The result has been a heavy cross-subsidisation of agricultural electricity users at the expense of industry and an unaffordable subsidisation of power in general.

While the average tariff for farm users was 21 paise (100 paise = 1 rupee) per kilowatt hour in 1985, that for industry was 236 paise. The average cost of power was 172 paise per unit. This has led to increasing outflow of subsidised power by farmers (whose share of total power purchases rose to 47 per cent in 1995 from 37 per cent a decade earlier), worsening power deficits and revenue deficits for the SEBs and an increasing trend for frustrated industry (whose share of power sales fell to 36 per cent in 1995 from 50 per cent in 1985) to resort to captive, mostly diesel-powered, power

generation, which is costly and polluting.

It has become clear that emerging from this mess will prove an arduous and complex task. First and foremost it will require structural reforms of the SEBs, or at least of a substantial number of them. With significant World Bank and Asian Development Bank backing, this process has begun. The state of Orissa has already begun a radical overhaul of its SEB. Haryana is close behind, and Andhra Pradesh and Karnataka states are also poised to embark on reforms.

In each case, the reformist states are applying a variation on a basic template. This includes depoliticising the SEB, largely by installing an independent state power regulatory authority to set tariffs, unbundling the SEB's current responsibility for generation, transmission and distribution, privatising the latter wherever possible, and corporatising the separated power entities in general.

But, so far, the reformist states remain a tentative minority. On present trends,

reform is not fast enough yet to enable analysts to forecast, with any confidence, that the SEBs will be in better financial shape soon enough to sustain the power investment needed to prevent a grave power crunch.

To India's current generating capacity of 84,000MW, the government's authoritative India Infrastructure Report last year estimated that the country needed to add 111,800MW in the next decade to meet likely demand. This, the report calculated, would require investment of around \$180bn.

The power ministry believes that India will be able to add 40,000MW of fresh power by 2002 and that this will at least keep the current power deficits from worsening.

Of this total, says Y. Alagh, the caretaker power minister who took over the portfolio last May and who is expected to hold it until India's elections next month, roughly half is expected to come from the private sector and the remainder from India's central and state gov-

ernments. Of the private component, projects worth 17,700MW have received central government clearance and projects to generate another 3,000MW will, he says, be cleared by March.

Of the state component, 8,700MW is planned for implementation by the National Thermal Power Corporation, a financially sound state organisation which, says Mr Alagh, would have little difficulty in financing its proposed projects.

However, it still remains unclear how many of these cleared private projects can actually arrange financing for their projects. In most cases, the private developers are, in the absence of any further government guarantees, seeking arrangements for payment through escrow accounts from the SEBs. The SEBs undertake to give the private producers first call on their revenues under the proposed schemes. Without such hard and fast commitments, bankers are proving unwilling to tie up the financing of many power projects.

The difficulty is that most all SEBs cannot afford more than one or two such escrow arrangements - and

few have been completed. According to Crisil, the Bombay-based credit rating agency, it would be realistic to expect that India's SEBs can currently sustain, at best, projects generating only 5,978MW of power - well short of the power ministry's hopes.

Hence the preponderance of power pessimists. "The picture is really pretty dismal," says Teri's Mr Patcha. "You really don't have enough in the pipeline. All of which put together indicates that, in the short-term, the power situation is going to get much worse."

Mr Alagh remains determinedly sanguine, however. "The energy deficit today is about 8 per cent. It was 12 per cent at the end of last April, so the situation is one of concern now. The word crisis I did use when I took over in May but, if things go well, we should be able to keep the deficit down to 7 to 8 per cent by next summer," he says. "Within two years, the decisions we are taking now will start to have an effect, so I don't see India's energy situation getting out of control."



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II INDIAN ENERGY

STATE ELECTRICITY BOARDS • by Amy Louise Kazmin

A little light seen on the horizon

But essential reform will throw some, notably farmers, into the dark

The cost to India of subsidised or free power to its farmers is \$3.5bn a year. It is a cost that the country's State Electricity Boards (SEBs), which distribute power to customers, can ill afford.

The ailing SEBs are expected to report combined losses of \$2.5bn for last year. They also have outstanding dues, averaging around 30 per cent of total sales, and owe nearly \$1.5bn to central government enterprises in unpaid bills for power, fuel and other services.

The poor condition of the boards is the Gordian knot bedevilling India's power sector. Independent power producers are ready and willing to build projects to meet India's growing demand for electricity. But, after decades of mismanagement and populist moves to give free or subsidised power to farmers, SEBs are in no position to pay for the power that could be generated.

That makes it extremely tough for the potential independent power producers to bring their new projects to financial closure.

"The fact that the SEBs are in bad shape is causing us some difficulty," says Patricia Pelletier, vice-president of SNC Lavalin, a Canadian power company with ambitious plans for India.

Yet in this bleak scenario there are small sparks of light. Agencies such as the World Bank and Asian Development Bank, along with level-headed Indian reformers and potential independent power producers, have been trying for several years now to impress upon politicians that SEBs must be managed like profit-minded companies rather than as grab-bags with free giveaways for all.

Initially, politicians resisted. But now in several states, including Haryana, Rajasthan, Andhra Pradesh and Gujarat, some are willing to listen.

The state that has gone furthest down the reform road is Orissa which, with World Bank encouragement, dissolved its state electricity board in April 1996. The board was replaced by an independent regulatory commission to fix tariffs for the independent companies that now handle generation, transmission and distribution. The transmission and distribution company is due to be privatised gradually, starting this year.

Meanwhile, other states have also started laying the groundwork for similar efforts. Haryana state officials are in the final stages of discussing a \$600m, 10-year World Bank loan for restructuring their electricity board into three separate business entities. The state has also passed a reform bill that establishes an independent regulatory commission to set prices and oversee fair competition.

Officials in Rajasthan, Gujarat and Madhya Pradesh have drafted similar legislation, though these bills have yet to be introduced to their state assemblies.

Gujarat is planning to convert two distribution circles into independent profit centres on an experimental basis, while Rajasthan plans to privatise distribution in two zones.

For all reforming states, the key issues are insulating electricity boards from political vagaries and raising tariffs for agricultural customers to make the boards financially viable.

"At the end of the day, the most important issue is that people have to pay for electricity," says Mr Pelletier. "It's not a problem of the SEBs; it's a problem of political will and social will that you have to pay for what you get."

While politicians have

used the promise of free power as a vote-getter, power ministry officials believe India's cultivators are now willing to pay more for a better quality, more reliable supply.

Evidence to support their view comes from the desert state of Rajasthan, where the electricity board introduced a novel scheme to help people avoid a 13-year waiting period for a power connection.

Under the so-called "Nursery Scheme", farmers could jump the queue and get an immediate power connection if they were willing to pay Rs50,000 - 10 times the normal connection fee. Once connected, consumers under the scheme pay nearly 1.5 times more for every unit of power than other users.

So far, some 50,000 people have been willing to pay for a quick connection, while thousands more are on a waiting list for a connection through the scheme.

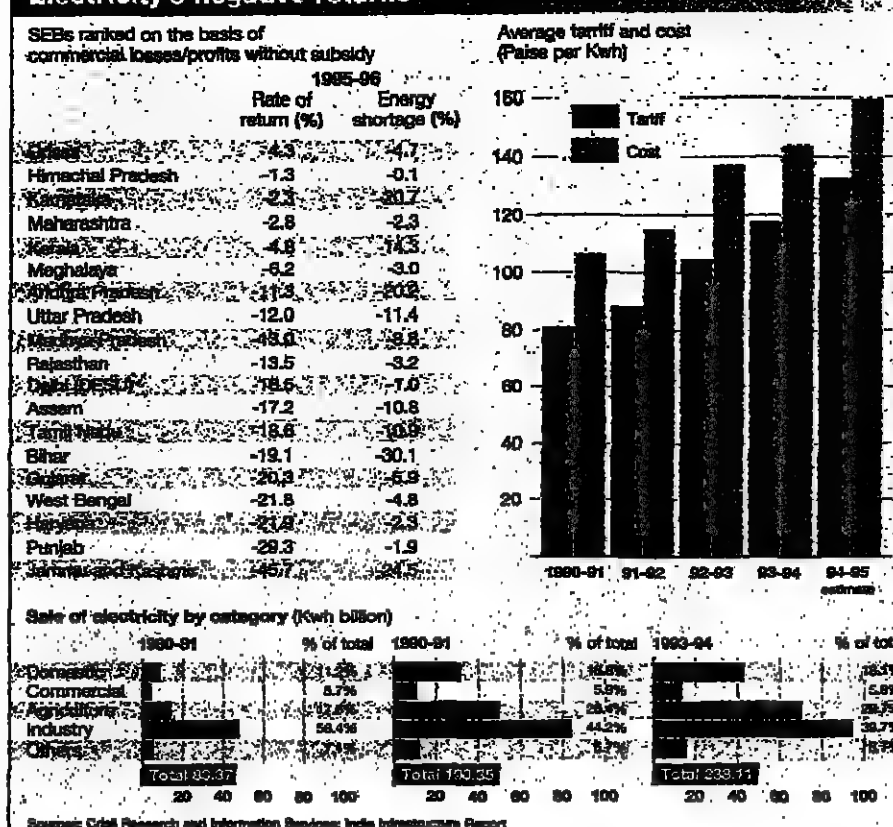
The programme did generate some controversy. Initially, an uproar in the assembly forced the government to call off the programme. But the protest, from the farm lobby was so fast and vociferous that it was reinstated within two days.

The man behind the plan, Pashupati Nath Bhandari, a former chairman of the Rajasthan State Electricity Board, says the project has been "a roaring success" and should change attitudes about power reform.

"This has exploded the myth that you cannot touch the agricultural sector," Mr Bhandari says. "Tariffs are a peripheral issue; ultimately the quality is more important."

Mr Bhandari did not leave things to chance though. While chairman of the state SEB, he and other top officials held public meetings in nearly every district to explain the need for reforms to overhaul the organisation. The meetings, which sometimes lasted as long as six

Electricity's negative returns



hours, were often acrimonious and marked by heated debate. But he believes most state residents are now convinced of the need for a change. "I have created a proper climate [for reforms]," he says.

The need to overhaul the electricity boards is urgent. India's current energy and peaking shortfall, now estimated at 10 and 18 per cent respectively, is growing as capacity addition fails to keep up with demand.

In Haryana, for example, the current power shortfall is around 18 per cent, due partly to the fact that the cash-strapped board has not been able to add new generating capacity in nearly a decade. Last winter, Haryana was forced to declare extensive power cuts to cope with the problem. Consultants estimate that over the next two decades, the state will need \$12bn in new investment to meet its power requirements.

Meanwhile, in Rajasthan, total installed capacity is 40 per cent short of demand. Yet with \$1.1bn of outstanding payments owed to it, and

annual interest payments of \$179m, the Rajasthan Electricity Board is hardly in a position to pay for new capacity.

Nationally, India needs an estimated \$178bn in investment to meet power needs up to 2005-06. Such investment will not be forthcoming unless the SEBs can put their houses in order.

It is not just the untenable subsidies that are causing them trouble: unchecked power theft is another major problem.

Nearly 21.4 per cent of the country's available electricity was lost in transmission and distribution in 1993-94, partly due to technical problems but also due to pilferage, often carried out in collusion with SEB employees.

Meanwhile, frustrated industries are turning away from the public power supply and building captive generation plants to be assured a continual flow of energy. Between 1984-85 and 1995-96, the share of domestic and agricultural customers as a percentage of the SEBs' total sales grew from about 27 per cent to 47 per cent, while the industrial share shrank from 60 per cent to 35 per cent.

That has exacerbated the SEBs' problems since industrial customers pay more for power than agricultural consumers.

For several SEBs, the financial crisis is nearly at boiling point. V.B. Tulsi, an economist at the Asian Development Bank, says that in Gujarat, for example, "there is a feeling that this problem has to be addressed. There is no way out."

Yet power reform still has the potential to arouse

heated passions. In Haryana, the state power minister resigned in protest at the planned reform last February. Subsequently, eight people died and the mother of a government minister was abducted during violent protests against the state's decision to stop repairing or replacing broken transformers for customers with large unpaid bills.

The outcry prompted the government to backpedal on a commitment to repair transformers as long as customers paid 80 per cent of their outstanding dues.

The state's chief minister, Bansi Lal, is a staunch advocate of the reform and has held numerous public meetings to explain the need for it. But the task of convincing farmers has been made more difficult by neighbouring Punjab, a state where officials are currently giving free power to farmers.

In Andhra Pradesh, employees of the electricity board have opposed and stalled reform efforts.

Still, in progressive states, officials are gradually coming to the view that they have no choice, and analysts believe there is a momentum for change. The drive for reform would also get a boost if parliament passed a proposed bill to establish a central energy regulatory authority.

Even if it does not, reforms are likely to power ahead at the state level. "India will reach a critical mass for reform," says Djalal Mostafaei, a senior energy specialist with the World Bank. "There is reason for a little bit of cautious - very cautious - optimism."

PETROLEUM • by Amy Louise Kazmin

Six years on, the well is at last uncapped

Deregulation opens the way for the investment needed to meet huge demand

Back in 1992, India appealed to multinational companies and private Indian investors to set up oil refineries to help meet the country's rapidly-growing demand for petroleum products. Six years on, the efforts to attract investment have, for the most part, fallen flat.

While global oil giants such as Shell, Mobil, Elf, Exxon and BP are keen to win a slice of India's growing petroleum market, they have been hesitant to invest in the tightly-controlled sector because, until now, the distribution and sale of refined petroleum products has been the province of a monopoly of state-owned companies selling petrol and other products at state-set prices. Likewise only state-owned companies could import crude oil.

It was a structure offering little incentive for private sector involvement. "No one is going to invest in a pure refinery - it's not viable," says R. Venkatraman, a senior analyst at BZW Asia.

"The icing on the cake is marketing."

Now the rules of the game are set to change. Just days before the collapse of the United Front coalition, the Indian government's cabinet approved a far-reaching plan to dismantle the controls throttling the oil sector's growth. The plan calls for price controls on petroleum products to be phased out over four years and for a rationalisation of import duties - so tariffs are higher on refined products than on crude.

The state monopoly on crude oil imports will end and, crucially, companies which are either operating refineries with an investment of more than Rs200bn or producing 3m tons of crude annually will be allowed to sell transportation fuel in the retail arena.

"What we are seeing is a reversal of 30 years of state control," says Mehdi Varzi, director of research at Kleinwort Benson Securities.

Details have yet to be clarified. The government notice has little to say, for example, on the key issue of whether refiners will be permitted to build their own pipelines for distribution or will be required to use pipelines planned by a consortium of

state-owned companies. Also, the government is still talking of issuing licences for the importation of crude, which leaves potential investors concerned.

Nevertheless, analysts say the direction of the policy is clear. "They want oil majors to invest in refining and oil production. Oil majors want to market the products. Now the settlement is that they'll be allowed to sell in India but they'll have to make a supporting investment," says Harshad Patwardhan, who monitors the industry for Caspian, a Bombay-based research house.

India's ministry of petroleum estimates that at least 110m tons of additional refining capacity will be required to meet domestic needs by 2010. While foreign companies such as Shell, Oman Oil and Saudi Aramco and Nippon Denro have all been given initial permission to build refineries - some in conjunction with state-owned companies - work has started on only two new refining projects, and both are sponsored by Indian companies. Bombay-based Reliance Industries is building a 10m-ton refinery, and a 10.5m-ton plant is under construction by the Essar group.

However, Indian officials hope the move to deregulate the industry will help revive, or spur on, the stalled projects as well as luring new investment.

Oil industry sources and analysts believe it will. "It's a major step towards opening this market to global standards and attracting significant investments in the downstream refining sector," says Vikram Mehta, chairman and country manager of Shell India Private, which is already conducting oil exploration in Rajasthan. "We would invest in India if we had the opportunity to take the product and market it under our brand name."

Shell, with an eye towards the eventual opening of marketing, has already been working to build brand equity by managing several petrol stations technically run by its joint venture partner, the state-owned Bharat Petroleum.

To a casual observer, the retail stations look like Shell sites and offer attentive service, mini-markets and other features associated with petroleum marketing in the US and Europe.

But it is not just potential private investors who stand to gain from deregulation.

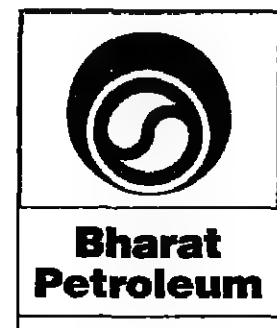
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PROFILE Indian Oil

Surviving troubled waters

These are turbulent times for Indian Oil, India's biggest oil company and the country's only Fortune 500 company, as it attempts to make the evolutionary leap from a domestic quasi-monopoly to a global oil concern.

The company is still recovering from a severe liquidity crunch, which reached crisis proportions in mid-1997 following the government's failure to pay more than Rs100bn owed to Indian Oil from the central oil pool account.

It is hugely exposed to the opportunities and risks generated by the government's subsequent decision to dismantle the administered price mechanism and move to a market-priced regime with greater competition by 2002.

And it must learn to come to terms with a new class of owners as the government begins to reduce its 91 per cent stake in Indian Oil through the sale of global depositary receipts to foreign investors.

But 1998 promises to be an easier year for Indian Oil than 1997. Its immediate financial crisis appears over. "We have come out of it very well," says S.C. Mathur, finance director, before admitting that "it was the most challenging time for Indian Oil and for me personally".

In order to pay for imports of crude oil the company was forced to raise borrowings sharply. Short-term foreign exchange borrowings rose from about \$1.5bn to a peak of \$3.5bn, while the total outstanding debt rose from

Rs55bn in March 1998 to Rs140bn.

A fall in the international crude oil price has since alleviated the oil pool deficit - allowing the government to pay Indian Oil about Rs15bn. This, in turn, enabled the company to cut foreign borrowings to \$2.8bn now.

"At present we have receivables of about Rs85bn," says Mr Mathur. The bulk of this balance will be converted into government petrobonds with a five-year maturity paying a coupon of 10.5 per cent - which Indian Oil expects to receive in March or April.

Many analysts describe the issue of petrobonds as a "second-best solution". Its principal effect is cosmetic - reclassifying the debt as an "asset" rather than a "receivable" on Indian Oil's books. The petrobonds are not tradeable - making it impossible for Indian Oil to realise the sum owed - and the coupon is probably less than the cost of borrowing. Further, there is an element of political risk over the ultimate repayment.

But Mr Mathur says the petrobonds are helpful. "Receivables will become an investment yielding a return," he argues. "Also, we will be able to borrow against these securities." The government has agreed to make up any difference between the coupon and the cost of borrowing through the oil pool account. "If the cost of borrowing is 12 per cent I will be refunded 1.5 per cent," he says.

Indian Oil plans to increase its refining

capacity from 35m tons today to 48m tons by 2000, beginning with an additional 6m tons capacity at a new refinery at Panipat. But the bulk of the increase will come from expansion and upgrading of Indian Oil's old existing plants. This forms the centrepiece of investment plans totalling Rs300bn over five years - Rs200bn of which will be funded by internal cash flow.

M.A. Pathan, chairman, says the company's plans were based on "conservative" estimates of demand, suggesting there is a gap of 20m tons between India's current refining capacity (61m tons) and demand for refined products (81m tons). Indian Oil worked on the basis of government forecasts that demand would rise to 113m tons by 2002, excluding demand from new power projects. "The additional demand could be 10m tons to 15m tons," he says.

There is also a risk that some of the newly-licensed private sector refining projects will not complete according to schedule. The final details of the government's plan to dismantle the administered price mechanism are yet to be finalised, although Indian Oil expects earnings to increase as a result of its low cost of capital on its established refinery, distribution and sales infrastructure. The company has already decided to assess all new projects "with reference to their capacity to earn in a free market".

The company is

upgrading antiquated technology at some of its older plants, reducing sulphur emissions and sprucing up its retail outlets to prepare for greater competition.

But Mr Pathan is confident. "We are in a commanding position at the moment, and there is no reason why we should not remain in the same position despite the liberalisation scenario."

Indian Oil has huge advantages in infrastructure - including a 5,500km network of pipelines, 6,800 petrol stations and 4,400 storage tanks for truck and bus fleets.

At the same time, however, whatever piecemeal moves are made into the Indian petroleum market are likely to be, at least in part, at Indian Oil's expense.

Indian Oil plans to raise fresh equity capital to help fund its ambitious expansion. The government's move to reduce its equity stake towards a probable long-term target of 81 per cent.

It has already received government permission to expand its share capital by 10 per cent and the government plans to sell about 10 per cent of its existing stake.

Mr Mathur says the sale is likely to take place in two stages, each comprising the sale of a 5 per cent government stake and a 5 per cent new issue, but "not before March".

Krishna Guba

PROFILE Power Grid Corporation

Seeking to provide national distribution

For most of its 50 independent years India has built most of its power stations tied to specific sources of fuel and linked to specific, and usually local, outlets for the use of their electricity. It therefore has no national electricity grid. Worse, only two of India's five regional grids are fully and effectively linked.

"It's not an optimal state of affairs," says S. Majumder, general manager of Power Grid Corporation, the state body created in 1989 to rectify this glaring deficiency.

Indeed not, since without the ability to shift power across India's vast plains, the country is incapable of levelling peak power deficits as they vary from region to region.

Neither can India yet fully evacuate power from proposed mega power projects producing more electricity than a single state or region

can currently absorb.

Without a functioning grid, India cannot even contemplate creating a national market in electricity, or even a system whereby tariffs are set according to availability of power.

For these reasons, among others, the government created Power Grid even before the country embarked on the wider liberalisation of power generation. Again for these reasons, multilateral and bilateral lenders have come to view Power Grid as among the most vital components in India's attempts to reform its ailing power system.

So far, the fully state-owned entity has received more than \$1.5bn from international donors and agencies, with an equivalent sum promised for future ventures. The World Bank alone has committed "in principle" to loans of \$1.5bn over the next seven years.

The goal is to enable Power Grid to meet the ambition of forging from India's ad hoc and poorly synchronised local grids the rudiments of a national grid by 2002, one capable of shipping 1,000 to 1,500MW of power between the five existing regional grids.

The corporation has already invested \$1.2bn in the enterprise and estimates it will cost a further \$4.5bn by 2002 to complete its part of the programme.

It is a task of mighty complexity as well as cost, frustrated by wide regional variations in power voltages, frequency, supply and demand.

"The parameters differ between every region," says Mr Majumder. "So, for instance, at the moment we cannot effectively link power supplies in the north to the south of the country."

In some cases, he says, Power

Grid can build up and improve existing power links, but in most others the task requires building, from scratch, a parallel transmission system, often overcoming problems of differing frequencies and voltages by installing direct current high voltage links rather than alternating current linkages.

At the same time, Power Grid is investing around \$650m in creating five load dispatch centres in each of the five current regional grids to manage the national system.

At present, only India's eastern and north-eastern regions are linked, by a 500MW high-voltage and direct current connection.

Power Grid is now working to establish three other transmission power bridges, a 500MW DC link from Orissa state in the eastern region to Andhra Pradesh in the southern, a 400KV

AC line from Assam in the north-east to Madhya Pradesh in the east, and a 500MW DC link between Bihar in the east and Rajasthan in the west across the northern plains into the northern region grid.

Future plans include a 2000MW DC link between the eastern and southern regions and a 3000MW DC link tying the east to the north.

Beyond its central task of creating the national grid, however, the corporation has a wider remit – one reflecting its emerging position as the central overseer of a national power system and one simply reflecting the ambitions of what has become one of India's better-regarded public entities.

Given its national outlook, it is natural that Power Grid has been given the responsibility of attracting and vetting all bids for the mega power projects envisaged as producing more power than a local grid could

evacuate – and for helping create the required transmission system.

The corporation has also begun diversifying into offering consultancy services to India's beleaguered and largely loss-making state electricity boards, supplementing transmission tariff revenues from the SEBs which comprised the bulk of the corporation's turnover of around \$250m last year – on which it returned an operating profit of \$78m.

So far Power Grid has not needed any direct government support. The company is required to meet 30 per cent of its investment from internal resources and accruals but relies otherwise on multilateral and bilateral loans and commercial borrowings.

Its financial planning envisages meeting the cost of installing the national grid 44 per cent from domestic and

foreign borrowings, 33 per cent from the World Bank, 21 per cent from accruals, 7 per cent from the Asian Development Bank and 5 per cent from Japan's Overseas Economic Co-operation Fund.

Sustaining its proposed share of total investments will require a significant rise in current earnings – particularly since likely growth in revenues from the SEBs is necessarily limited.

Which is why Power Grid looks likely to extend its reach further into telecommunications – proposing to undertake the creation of a national fibre optic telecom "backbone". The corporation has already opened talks with other government ministries over the project, designed substantially to augment Power Grid's earning power.

Mark Nicholson

PROFILE State of Orissa

In the last five years, the eastern India state of Orissa has received serious investment proposals of more than Rs1.31bn from domestic and foreign groups to build new industries. Such enthusiasm, according to a spokesman for the state government, was triggered by the "very brave" reform of the power sector.

Orissa, which previously had a poor record for generation station plant load factor and loss of power during transmission and distribution, quickly became the paragon in power sector reform as it was the first state to take advantage of a World Bank-financed restructuring scheme.

The bank's officials acknowledge that the Orissa government's reform programme goes well beyond their prescription of a "significant private role in power distribution, corporatisation of utilities, rationalisation of the tariff

structure and setting up of an independent regulatory commission".

The state is one of the richest in the country in terms of mineral resources, but investors have avoided Orissa because of its chronic power shortage. But now, when Mr Janaki Ballabha Patnaik, chief minister, says that Orissa is in the process of becoming the "power-house of India", he sounds convincing.

According to a survey by the Central Electricity Authority, Orissa will have a surplus of 364MW by 2002, the last year of the country's ninth five-year plan.

The principal objective of the comprehensive power reform programme is to reduce the role of the government in the sector to a minimum and to create the conditions for private investment in power generation and distribution. The state government is hopeful that many other

Reform powers progress

Indian and foreign groups will follow the example of AES Transpower Corporation of the US, which is constructing a 500MW coal-fired power complex at Ib Valley, and build thermal and hydro-power generating stations. If this hope is fulfilled then, instead of the projected shortfall in power of 874MW by 2007, the state will continue to have surplus power.

Orissa is also the first state to have split the wholly government-owned State Electricity Board into separate generation and distribution companies and set into motion their privatisation.

The Orissa Electricity Reform Act was put in place in November 1995 and the government transferred all the hydropower stations,

with a total capacity of 1,237.5MW, to Orissa HPC and the transmission and distribution of electricity to the Grid Corporation of Orissa (Grido) with effect from April 1 1996.

The Orissa Power Generation Corporation (OPGC), which owns 420MW thermal power capacity, has always been a separate, wholly-owned government company outside the SEB fold.

The government estimates that the implementation of the power sector restructuring programme (across India) will cost about \$1bn. The World Bank is making a line of credit of \$350m available, with the UK's department for international development adding \$110m and the Asian Development Bank a further \$57m.

Bijoy Jena, chairman of Gridco, believes the "reforms will lead to the establishment of a sustainable market structure which promotes the growth of the power sector and ensures a reasonable commercial return to the market participants. It will also protect the interest of consumers".

As a prelude to the privatisation of its power distribution business, Gridco has formed four subsidiary companies and 51 per cent of their equity capital will be transferred to private companies by March 1999.

"We set the privatisation ball rolling on November 28 1997," says Mr Jena. "The response to the privatisation is highly encouraging. A foreign

company can participate in the competitive bidding through a consortium which includes an Indian business organisation."

No single group or consortium will be given majority ownership of more than two power distribution companies. "We want healthy competition in the power distribution sector," Mr Jena adds.

As the distribution business is spun off into four separate companies, Gridco will be concerned with the bulk buying and selling of power. The state does not intend to privatise the transmission business in the near future. However, both OHPC and OPGC will progress with disinvestment in phases.

Merchant bankers expect there to be many domestic and foreign bidders for the

shares of OPGC which owns two new thermal stations and which is building another two coal-fired units at Ib Valley.

Merchant bankers say bidders for majority ownership of distribution companies will seek assurances from the government that they will be allowed a free hand in eliminating loss of power due to theft, non-metering or defective metering of use of power and inefficient revenue collection. The government is strongly committed to reform and will not hesitate to let the distribution agencies plug the theft of power.

According to Gridco officials, what makes the share offer attractive is the package of measures Gridco has initiated to make both transmission and distribution businesses profitable. Supported by the international lending agencies, Gridco is modernising the trans-

mission and distribution systems and replacing the old meters. The work is to be completed by 2002.

Industry officials argue that the establishment of the Orissa Electricity Regulatory Commission – the country's first – as a "transparent and independent regulator" to fix the power tariff and gradually phase out the subsidisation of the household and agricultural sectors by industrial and commercial consumers confirms that the government means business.

Orissa will be exploiting about 40 per cent of its hydro power potential of 15bn units by 2002. With nearly 47bn tonnes of non-cooking coal at Ib Valley and Talcher, the state could be a perennial source of power for the rest of the country. The challenge is in attracting investment.

Kunal Bose

Petroleum's well is uncapped

Continued from facing page

For the public sector companies that dominate India's oil industry, an end to price controls is also good news. Until now, the profits of companies such as Indian Oil Corporation, Hindustan Petroleum and Bharat Petroleum were constrained by a Byzantine system of controls requiring them to import crude at world prices and sell refined products at state-dictated prices. The government guaranteed companies

a 12 per cent fixed return on investment; any surplus earned was deposited into 'oil pool accounts'.

If official prices were below world market prices, the government compensated companies through the same fund. The prices themselves were set by the "administrative price mechanism", a 32-year-old net of complex cross-subsidies. Under the system, petrol for cars and aviation turbine fuel were overpriced to subsidise kerosene, the "poor

man's fuel", used by an estimated 300m Indians for cooking and lighting.

Although the system functioned for a while it has become unsustainable in recent years due to rising global oil prices, a hefty increase in imports, falling domestic output and rising subsidies. Yet Indian governments repeatedly postponed price increases. As the end of last year approached, the deficit in the oil pool account had swollen to nearly \$5bn,

pushed up in part by a \$1.8bn bill for subsidising kerosene during 1996-97.

Analysts warned that, if steps were not taken quickly, Indian Oil Company, the country's sole crude oil importer, would exhaust its \$3.5bn ceiling on foreign borrowings by November.

Forced to act, the government in September increased the price of diesel by some 22 to 26 per cent, bringing the price to import parity. It also said that with immediate effect diesel, naphtha and fuel oils would be linked to world prices. Officials subsequently announced that consumer prices for gas would reach global parity within two years. Finally, it announced that prices receivable by oil producers would reach import parity in five years and that, as of April 1, refineries would begin to receive a tariff-adjusted import parity price for a range of products including motor spirit, kerosene, diesel, aviation turbine fuel and LPG.

With the price reforms, India's public sector oil companies are likely to see a significant rise in their profitability.

This will provide them with much needed resources to pursue expansion plans designed to meet future demands. "It's definitely welcome news," says Caspian's Mr Patwardhan.

Plenty remains to be done, however. Last year, the government announced a new exploration licensing policy, but bidding on exploration blocks has been stalled until the government formulates a new petroleum tax code. India also has to establish proper regulatory mechanisms to ensure fair competition between state-owned and private companies – an issue of critical concern for potential foreign investors.

"These watchdog bodies should have strong teeth to prevent the abuse of monopoly positions," says Mr Varzi. Private companies say that getting the option to build their own pipelines, rather than being forced to rely on lines run by competitors, is also a key factor.

Analysts say the steps taken so far bode well. A new regime will take control after next month's elections, and most believe that the plan to deregulate the oil sector will be implemented.

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IV. INDIAN ENERGY

BIOGAS • by Amy Louise Kazmin

Milking a natural resource

India's 230m cows are an unlikely power supply for its 950m people

Meeting the energy needs for 950m people is one of India's biggest challenges. But the country has one unexpected resource which is lighting up many lives: cattle dung.

With an estimated 330m head of cattle in India, dung is amply available. Several million Indians are already using dung-derived gas – known as biogas – for cooking and lighting.

The story of biogas begins in the 1950s when Indian scientists developed a design for a small structure that turns anaerobic digestion to turn cow dung into clean-burning gas, while leaving plenty of material left over for fertiliser.

Initially, the plants were introduced on a limited scale. But after the oil crisis of the 1970s Indian officials began actively promoting the use of biogas plants, offering subsidies and training courses to encourage

their spread. So far plants have been installed in 3.7m households, while 10,000 stonemasons around India have been taught how to build them.

A family needs between two and five cattle – depending on the type of cattle – to have sufficient dung to feed the smallest, household-size plant.

For Sunita Sharma, a farmer's wife and mother of five in the Indian village of Moradpur-Nizam, the biogas plant her husband installed several years ago has been a boon. Previously, Mrs Sharma spent three or four hours a day collecting wood to use for cooking. When she prepared meals, acrid smoke from the wood fire stung her eyes. Now, all the family's meals are cooked on a biogas range. "And we don't get smoke in our face," she says.

Advocates of biogas say the incidence of lung and eye ailments among rural women, who often suffer from prolonged exposure to smoke from wood fires.

Biogas is used not only for cooking, in sufficient quantities, it can also be used to

generate electricity through specially modified generators. Mrs Sharma's neighbour, Yeshpal Singh, is a relatively wealthy farmer with about 25 cattle. He has installed a large, 35m³ capacity biogas plant in his yard. His family uses the gas for cooking and to run a generator which powers their television, refrigerator and farm equipment when the government power supply is cut off. That, they say, is most of the time.

Mr Singh says word of biogas is spreading. "People are inspired to get these plants," he says.

Biogas is not limited to household use. Mohammed Haroon Choudry and his brothers run three roadside restaurants in the village of Dasna on the road between New Delhi and Lucknow. For most of their cooking the brothers depend on cylinders of liquid natural gas, which are often bought at high prices on the black market.

Recently, though, the Choudry brothers, who also have farmlands and a dozen cattle, installed a small biogas plant behind the restau-

rants as an experiment. They have been using it for emergencies when the regular gas runs out and are so impressed with the results that, next year, they plan to spend Rs80,000 on a large biogas plant to provide enough gas for them to cook most of the food at their three restaurants. Not only will the supply be more reliable, it will also save them money.

Energy specialists say the spreading use of biogas points a way towards overcoming the cost and obstacles of electrifying 600,000 rural Indian villages.

Dr R.K. Patchauri, director of the Tata Energy Research Institute, says that with new technology making small turbines nearly as efficient as larger ones, biogas, including gas from bio-degradable agricultural waste, could conceivably generate electricity for individual villages – something that may be far more efficient than trying to bring villages onto a grid.

"In the Indian situation, it is not sensible to generate power and feed it into a national grid. It is preferable



Cattle play an important role in the Indian community...and for some it provides a valuable source of energy

to have local and specific power – like a windmill to generate an irrigation pump."

Despite the enthusiasm of its users, the spread of biogas in India remains far below its potential. According to the ministry of non-conventional energy sources, some 12m rural households

have enough cattle to meet their energy needs through biogas. Yet the government budget for promoting the fuel is just \$15m per year – enough to subsidise the construction of only 300,000 new plants.

Without at least some support from the government, few farmers are willing, or

able, to afford the \$300 or so needed to install the smallest plant.

The success of the plants is also erratic. While in India's southern and western states around 90 per cent of the installed plants are functioning well, in states such as Bihar and Uttar Pradesh many are either lying idle or

are out of order.

Still, it is clear that Mahatma Gandhi's view that India's cattle are a source of wealth is true in unexpected ways. With a little political will and a few more resources devoted to it, cattle dung can help power Indian villages into the future.

NATURAL GAS • by Andrew Symon

The answer to some inflated expectations

India's need for LNG is mirrored by the regional suppliers' need for new markets

India is set to become the first new market east of Suez for liquefied natural gas (LNG) by the start of the new century or just after.

While there has been a lot of talk that Thailand, China and maybe even the Philippines could join the list of Asian LNG importers – consisting of Japan, South Korea and Taiwan – only in India is prediction becoming reality.

India's position arises because domestic production continues to fall short of

potential demand; the government wants to see more gas consumed to help overcome excessive reliance on polluting coal; and on-going industry deregulation and gas price reform is resulting in new opportunities for foreign and domestic companies, upstream and downstream, alongside the state-owned Oil and Natural Gas Corporation (ONGC) and Gas Authority of India (GAIL).

LNG's share of modern energy consumption (that is, outside of traditional wood, dried dung etc) is small, making up only about 11 per cent of the total, as against coal's 54 per cent. But the government and the companies in the sector believe there could be no limit to

demand provided there is gas available.

British Gas, active in west India, projects a threefold increase in the country's total gas consumption by 2006 when it would account for 20 per cent of energy consumption.

Such projections assume imports. The Indian government itself does not expect anywhere near enough additional production from India's own gasfields – the main ones are Bombay High and Gujarat High, offshore in the north-west, with small fields also in the north-east and in the south-east – although it is encouraging exploration as well as promoting investigation as to how coalbed methane from India's extensive coal

reserves might be harnessed.

For India's western and north-western regions, LNG can be readily supplied from the Middle East and, maybe, one day through pipelines from Iran and Turkmenistan; for the eastern and southern regions, there is supply from Indonesia, Malaysia, Australia's north west; pipelines from Bangladesh and Burma are also mooted for the longer term.

Given the economic problems in Asia and the slowing of LNG demand growth in South Korea and Japan, LNG producers in the Middle East, Australia, Indonesia and Malaysia will be keenly turning to the sub-continent for markets they would earlier have hoped to find in eastern Asia.

There is a wide field of foreign and domestic companies planning LNG import developments, and the government is keeping a tight hand on the tiller of this competition. For example, no detailed planning and licensing for LNG receipt terminals is to be required – a sharp contrast to LNG import development in South Korea a decade ago when a government enterprise, Korea Gas (Kogas), was given an LNG import monopoly.

The situation now in India is consistent with the thrust of its energy sector policy since the early 1990s which encourages increasing private sector participation. This will ultimately be under a new regulatory authority designed to prevent monopolistic pricing.

In this environment, says Rebecca Mark, chief executive of the US company Enron International, success for LNG importers will depend very much on their efforts to develop downstream business and secure a strong customer base. Government permits alone will

not be enough.

Enron sees itself as leading the pack in this regard. It is working all along the industry chain, beginning with export supply of LNG from its Qatar project in the Middle East; construction and operation of a receipt and regasification terminal south of Bombay on the west coast; construction and operation of a high pressure transmission pipeline from the terminal through Bombay and onto the city of Hazira in the state of Gujarat; and providing base load demand through its large Dabhol Power Plant in the state of Maharashtra, now under construction.

Dabhol, one of India's first independent power plant developments and one of the largest foreign invested projects in India, is firmly on track after being derailed in 1996 when a new state government came to power. A new agreement was concluded with the state government in 1996.

Enron plans to import in the order of 5m tons of LNG annually. Of this, 2.3m tons will fuel the 2,450MW Dabhol

plant and the rest will be sold to other bulk consumers. While the first \$36MW phase of the plant, to be commissioned in December this year, will use naphtha or distillate, gas should start to flow for the plant by the time the 1,624MW second phase is completed around 2000.

British Gas International, the offshore arm of British Gas, is also well placed. It is also focusing on the western area of India, in and around Gujarat state, one of the country's most industrialised regions. BG, too, wants to import LNG through its own facilities as part of a wider strategy to develop downstream business. In addition to the use of domestically-produced gas.

BG has some of the building blocks in place. In July last year it acquired a controlling stake in the listed Gujarat Gas, India's largest private sector gas distribution company, with 1,000km of pipeline serving industrial, commercial and residential customers in Surat, Ankleshwar and Bharuch. Gujarat adds enormously to

BG's other asset – Mahanagar Gas, a 50:50 venture since 1994 with the state-owned Gail, now reticulating gas to customers in Bombay as well as providing compressed natural gas (CNG) to some 6,200 taxis.

To expand further, BG wants to be importing 2.6m tons of LNG a year by 2003, probably from Qatar through a receiving and regasification terminal at Pipavav across the bay from the large cities of Surat and Hazira. The terminal would supply the Gujarat Gas system with additional imports for dedicated power customers. BG is pursuing the LNG terminal project with the Gujarat Pipavav Port, and may also become a user on the demand side through its participation in a proposed 615MW power plant project at Pipavav.

"The wheel that turns it all is being able to distribute to residential users, industrial users and power plants as well as the potential of gas for fertiliser feedstock; you then have a chain," says the head of BG's Asia-Pacific region, Ted Trafford.

PROFILE Gujarat Torrent Energy Corporation

A LNG future beckons

Next October, Gujarat Torrent Energy Corporation (G-Tec) will switch its three gas turbines to combined cycle – reaching full capacity output of 655MW. The first of these turbines is already operational, generating 130MW.

The company – owned by India's Torrent Power, Powergen of the UK, Siemens of Germany and the Gujarat Power Corporation – is now discussing plans to triple this capacity to 1,800MW, using new supplies of imported liquefied natural gas (LNG). It has already secured agreement in principle with the state government to raise output to 1,200MW.

"The key challenge on this one is to obtain fuel," says Gerry Grove-White, general manager of Powergen India. "And that is almost certainly going to be liquefied natural gas." Mr Grove-White says G-Tec could expand its existing plant quickly but it will have to wait "two or three years" for the current wave of liquefied natural gas projects to come on stream. At this stage G-Tec may convert its existing plant to LNG.

"There is not enough gas at the moment," adds Mr Grove-White. He says G-Tec would consider using a temporary fuel, such as naphtha, while projects reach completion. "But we believe that, long-term, naphtha is not a fundamentally sound way of fuelling a power station – it is very expensive."

G-Tec was incorporated in 1992 as a joint venture agreement between Torrent, a diversified industrial group, and Gujarat Power Corporation, a vehicle set up by the state of Gujarat to promote

investment in power. A year later, Siemens agreed to take an equity stake as equipment procurement and construction contractor. In 1994, Powergen also bought into the project where it was appointed operation and maintenance contractor. Powergen now holds 28 per cent of G-Tec's Rs7.3bn equity, while Siemens holds 14 per cent.

"We wanted the contractors to have a long-term interest in the project," says a G-Tec spokesman. The company also needed foreign equity participation to allow it to raise funds abroad under Reserve Bank of India guidelines. By the time the two companies came on board G-Tec had already negotiated a power purchase agreement with Gujarat State Electricity Board, backed by escrow accounts and a state government guarantee, and started work on the site. "The Indian promoters (shareholders) showed real entrepreneurship," says Sudhir Shah, president (commercial) at G-Tec. "They started spending their own money before the company's borrowings were in place." He says the shareholders "knew that things would happen, but that they would take their own time" and were prepared to "take risks" in the meanwhile.

This aggressive approach helped sustain the project's momentum. G-Tec avoided becoming mired in political controversy in spite of frequent changes in government – in no small part due to the good offices of Torrent and Gujarat Power.

"This project has seen six chief ministers," says Mr

Grove-White. Fortunately, he adds, the senior state bureaucrats provided an essential "thread of continuity" and there was a common "political will" among all state parties to see the project completed.

While Siemens provided world-class expertise as a turnkey contractor installing V94.2 gas turbines and waste heat boilers – Powergen concentrated on design and managing the project risk. "I think Torrent would accept that we helped them considerably in risk management and risk mitigation," says Mr Grove-White. "Fuel was one area where we were able to add to the contract in one or two areas to improve risk allocation."

This was not without cost – sparking occasional clashes between the partners – and the end result rarely met international standards. The fuel supply agreement with Gas Authority of India (GAIL), for example, is still full of holes. One G-Tec expert summarises it as "we will supply gas if it is there at whatever pressure we like." Mr Grove-White counters: "If you want gas in India, there is a standard supply contract – we had to get comfortable with that."

He says it was not possible to always insist on "internationally bankable contracts." Instead, the plant was designed to also run on naphtha, delivered by rail, in the event that gas was unavailable – providing an alternative source of fuel. "Without naphtha I do not think we would have invested in this project," he says.

G-Tec's lenders – a consortium of Indian banks and German lenders

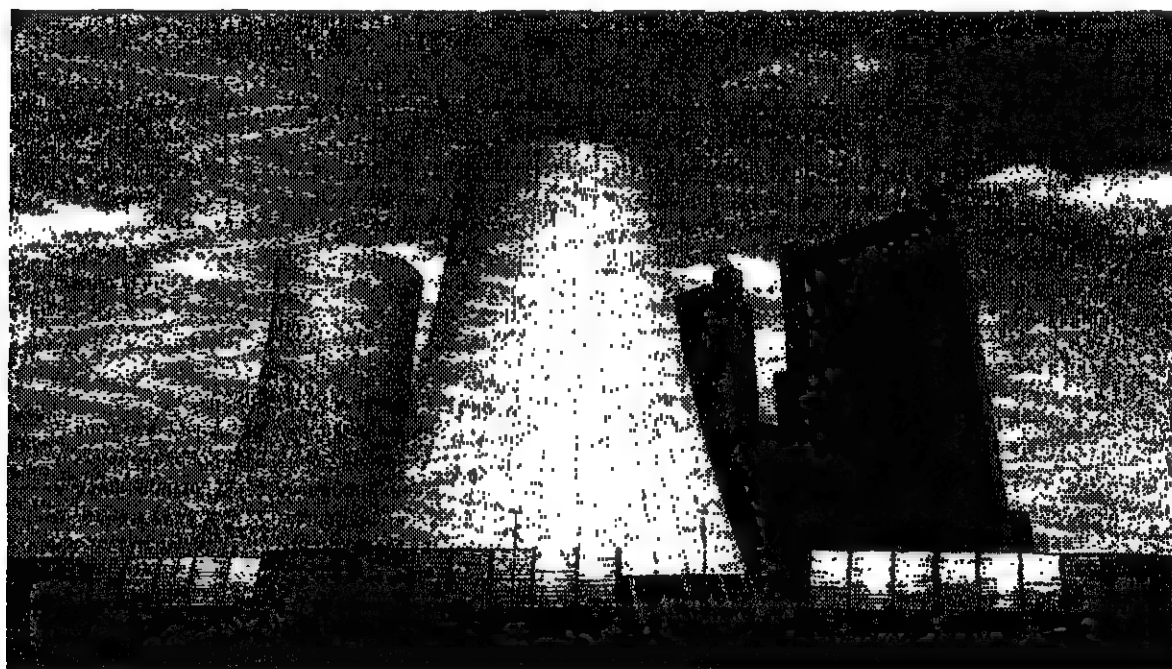
supported by deferred payment guarantees from Indian financial institutions – were willing to accept the terms on offer, lending a total of Rs17.3bn. The only difficulty was getting all the banks to agree to the same lending terms – a process which took several months.

"This would only work in an Indian financial context," says Mr Grove-White. "The ironic thing is that a counter-guarantee from India's central government was once seen as the holy grail because it gave access to international finance – but that has turned out to be a mixed blessing."

"International finance means fuel contracts, transport contracts, have to be to international bankable standards." While this remains high on the list, he says "the Indian solution is the quickest." All three private sector partners are now looking at further power projects. "Torrent says it would consider the fuel scenario and the overall objectives of the group," Powergen and Siemens, meanwhile, are working on a 578MW coal-fired plant at Bina, in Madhya Pradesh, in which Powergen holds a 49 per cent stake and India's A.V. Birla group the remaining 51 per cent equity.

The Bina power station will be India's first private sector coal-fired plant drawing on the Birla group's expertise in managing coal supplies. "The key is the rail and coal contracts – it is a single fuel power station and we have no alternative way of firing that plant," says Mr Grove-White.

Krishna Guha



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For more information contact: Business Development Director, PowerGen International, Ernest House, 11th Floor, 194 Hamilton Road, Singapore, 409 021. Tel: +65 (2) 262 2424. Fax: +65 (2) 264 2406. Photograph shows a schematic power station, Germany – a picture by wire from Siemens AG and RWE AG.

ARTS

The expanding appeal of Americana

The new year bidding in the US is giving Sotheby's and Christie's much to crow about, as Antony Thorncroft explains

The art auctioneers rouse slowly from mid-winter break. They have had plenty to mull over during this off-season. Christie's is still considering a take-over bid from SBC Warner, and the offer has certainly galvanised its working practices - last week it announced it was shedding 60 staff.

Sotheby's has been overtaken in size - but not in profitability - by Christie's in the past year. It has been considering how to regain pole position and has decided honesty is the best policy. After last year's unwelcome publicity about convincing in simulated work, it has decided to accept no goods for sale, particularly antiquities, that have a doubtful provenance.

Behind the background politics, there is the everyday action in the

saleroom. As usual the first big auctions of the year took place in New York last week, where the finest collection of Americana offered for many years came under the hammer. The prices paid, and the records set, suggest that the American love affair with their homeland continues at a most passionate level.

Americana - works of art and craft produced in the US (the earlier the better) - is exclusively a US collecting obsession. It leads to some weird transactions, and reflects the wealth of the nation. Where else would a copper and zinc weathervane, produced for some Massachusetts farm around 1860, sell for \$770,000? Or a quilt, embroidered in New York at roughly the same time, make \$354,000?

These prices were paid around 1990, at the time of the first great art market

boom, and only exceptional objects would raise such values today. Indeed the only weak sector of a strong market is folk art, in particular folk portraits. Today's buyers are more serious, seeking more traditional antiques, like furniture and silver. But their enthusiasm is just as strong, as last week's exceptional prices underlined. Equally strong is the American reverence for their great heroes - last month a signed letter by Abraham Lincoln sold for \$442,500.

Both Christie's and Sotheby's had much to crow about from their first auctions of the new year. On Friday alone Christie's brought in \$13.5m (£8.3m), nearly double his expectations. A chest of drawers, plus matching dressing table and side chair, made in Philadelphia around 1770 by Thomas

Affleck for the merchant Levi Hollingsworth, sold for \$2.9m, a record for a Philadelphia suite of furniture.

In the UK only an exceptional group of furniture by Chippendale, destined for an aristocratic mansion would command such a price. But the suite is famous and comes from a museum, the Chipstone Foundation in Milwaukee: unlike British museums, US museums are quite happy to raise money to buy new acquisitions by cashing in the old.

John Hays, who heads Christie's American furniture department, had estimated the suite at \$1.5m-\$2m, but a flood of new bidders, many of them quite young, took him by surprise. It was a new collector who acquired the suite. "We are delighted by the results," Mr Hays says. And such high prices will

draw out other good items for the June auction. Christie's also managed a record for American silver when a tazza made by Henry Pratt in Philadelphia around 1730 sold for \$453,500, against a \$50,000 forecast.

At Sotheby's the highlight last week was the dispersal of almost 600 pieces collected by the late Stanley Paul Sax, who made his money producing polishing compounds for metal products, and for 30 years spent much of it buying Americana. The quality and provenance of his purchases led to some frenzied bidding in a packed saleroom.

The auction brought in \$10.56m, with virtually every lot finding a buyer. The top price was the \$1.3m paid for a Chippendale chest of drawers and dressing table, attributed to Bernard

& Jugiez, who, working in Philadelphia in the 1780s, made furniture to Chippendale's designs.

Four very simple early chairs, attributed to John Welch, who traded in Boston around 1735, made the astonishing price of \$967,000. A tall case clock made in Philadelphia in 1765 by Jacob Godshalk set a record for an American clock, selling for \$442,500. Sax bought with the advice of the New York American dealer Israel Sack Inc. Sack was also a buyer on Sunday when, in a mixed owner sale, it paid \$531,000 for a games table made in Boston around 1795, which was labelled John Seymour. It is one of only six known tables carrying the Seymour name.

It had been bought in a boot sale 30 years ago by a retired teacher for \$25. Last September she took it to Chubb's Antiques Roadshow

in Syracuse New Jersey where it featured on the popular American TV programme *Antiques Roadshow*. It was recognised, valued and quickly sold. The pioneering BBC *Antiques Roadshow* has never produced such a lucrative find.

Another *Roadshow* discovery - a portrait of an unknown man by Sheldon Peck, which turned up in Nashville - sold for \$79,500 to the dealer Wayne Pritt. The unearthing of such valuables suggests that there is plenty of Americana out there waiting to be uncovered. More and more rich Americans feel it is their patriotic duty to pay amazing prices for common objects, minted in early America.

Among the new specialist auction records that Sotheby's claimed last week involved a neo-classical white marble fireplace

surround, made around 1788, which sold for \$222,500, against a \$10,000 estimate. Also, \$173,000 was paid for a walnut bird cage candle stand, made in Philadelphia around 1770, which was expected to go for less than \$30,000.

The auction house was even bold enough to post a record for a New England armchair, when a Connecticut example of 1785, in cherrywood, quadrupled its forecast at \$266,500.

It is not just patriotism that delivered these prices: the strength of the US economy is producing enough surplus wealth to drive up antique prices. This bodes well for New York's increasingly dominant position in the international art market. This should be confirmed next week when Sotheby's and Christie's sell two Old Master paintings and drawings.

Is somebody enjoying a subtle in-joke? The visual motif of the Royal Opera's new production of *Le nozze di Figaro* is an architect's plan of the Almaviva family villa, which from one angle looks suspiciously like a certain opera-house project down the road.

Presumably the company found that its existing production of Mozart's opera did not fit the stage at the Shafesbury Theatre and so a new one had to be rustled up quickly (the off-stage chorus of tut-tutting belongs to Gerald Kaufmann and his House of Commons Select Committee). Patrick Young, a Royal Opera staff producer, was brought in to do the job. Designs are by Roger Butlin and lighting (evocative on limited resources) by Paul Pyant.

How much they were given to work on - both regards to money and time - looks doubtful. The budget has bought a not-mustlyish single set, which is after all unlikely to be used again beyond these performances - if, indeed, it lasts that long. One push on the wobbly back wall and the entire villa could collapse into the garden. Everything is black and white, enlivened occasionally by those off-white shades that interior designers like to call "a hint of peach" or "avocado white".

There is a certain poshness about the whole evening. Young is fond of treating the cast like a flower arrangement so that they hit a neat tableau at the end of each scene - and it whistles away the time to see how far in advance one can spot the next one coming.

Whatever his passing perceptions, there is not a great deal of through-thought as to character or situation. In between their lines the singers tend to go blank, as though waiting for the producer to call out their next move from the wings - vainly in the case of poor Susanna, who waited an age for one (breaking glass outside the window) which never came.

There was rather a lot of that. In a Whitehall-style farce (of which *Figaro* is a very up-market variety) it is



Smouldering: Dmitry Hvorostovsky as the Count with Nuccia Focile's Susanna in the Royal Opera's new production

Opera/Richard Fairman

What a marriage in 'Figaro'

essential that people hiding behind doors, chairs or trees are not seen. Here they would pop out and - blow me down - another character would spot them every time. But perhaps the production will come together with more practice, more working together, and a sharper eye for comedy. It certainly has a good cast.

The star is Dmitry Hvorostovsky, who plays the Count as an over-sexed young pup who has inherited the family estate at an early age and is now absolutely full of him-

self. His smouldering manner gives off a sexual heat that burns up every female on the stage. Women in the audience are advised against sitting in the front row in case they get their ears stung. Once into the drama, he reveals a latent viciousness to the character that is quite frightening. And he sings the music magnificently. Hvorostovsky is - in a word - the best Count I have seen.

At the heart of the great Act 2 finale there is a moment when he convinces

you the Count really could kill his wife (what a marriage this could turn out to be). Gillian Webster's Countess responds by remaining cool, concentrating on singing her part as beautifully as she can. The voice does not sound quite even, or perhaps finished, but it has a freedom that allows it to sail out impressively. Dagmar Pecková's Cherubino also does well in her two arias, singing with feeling and intensity.

In Nuccia Focile the production has a Susanna with everything going for her,

pretty Italian features, bags of ebullience, sparkling eyes and crisp words, though she does not take charge of the opera as strongly as she might. Neal Davies's decisive and straightforward Figaro marks another step forwards in his career, but he needs to put a stop to the ugly habit of singing out of the side of his mouth. If his upper lip curls round any further, it will be in danger of swallowing his left ear.

There is a decent trio of supporting singers. Gwynne Howell a nicely

ineffectual Bartolo, Yvonne Howard a younger-than-usual Marcelina, Robin Leggate not waspish enough as Basilio - and the young American conductor Steven Sloane kept everybody exactly in place from the pit. If only the trim playing and well-judged speeds could smile a little more, too. Everybody in this *Figaro* needs to relax and enjoy themselves. Perhaps the second cast, taking alternate performances from Thursday, will show them how.

Concert

Carter clarinet concerto a tour de force

No, Elliott Carter is not yet 90, but a December birthday is the best way to guarantee a year-long celebration. The London Sinfonietta raised the curtain at the Queen Elizabeth Hall on Monday with the UK premiere of his Clarinet Concerto, and Carter was there to hear it and give a talk beforehand. He moves more slowly these days, but his wit, gentlemanly modesty and reluctance to explain himself have not withered with age.

We didn't need the question-and-answer session with fellow composer George Benjamin to learn that it's all there in the music. First performed by Alain Damien and the Ensemble InterContemporain last January in Paris (when it was welcomed on this page by David Murray), the concerto dazzles on first hearing and promises to be a source of endless fascination. The sooner it gets out of the contemporary music ghetto, the better - and that's not something I would say of every Carter work.

The concerto will be lucky to find a soloist as charismatic as Michael Collins, whose performance shared the breathtakingly virtuosic qualities - stamina, conviction, passionate eloquence - that distinguished Heinz Holliger's playing of the no less demanding Oboe Concerto a decade ago. This latest work is marginally shorter, but the landscape is just as diverse and the signposts equally clear.

What impresses is its Gallic fluency, its classical shapeliness and sense of physical space - all of which have the listener feeding out

of the soloist's hand. The clarinet turns out to be something of a Pied Piper, leading off each instrumental group in six sections, linked by short tutti passages. There's a bluesy feel to the dialogue with brass, a racy whirl with fellow woodwinds and a reverie of the utmost tenderness with five string instruments. The musical argument then dissolves into Webern-like fragments before a quizzical ending.

Whether or not the concerto adds to his reputation as the world's "greatest living composer", an unhelpful accolade bandied about by Carter cognoscenti, it finds him less intellectually intimidating, less musically labyrinthine than before - and much more lyrically charged. That impression may have had something to do with Collins's relaxed confidence, which underlined the visionary imagination of the piece over and above its tighrope technical demands.

After this tour de force, the Double Concerto (1961), a Sinfonietta party-piece, sounded rambling in discourse, denser and more obviously constructed. Both works dwarfed the preceding 70th and 80th tributes to Carter from Lutoslawski, Babbitt and Oliver Knussen, who conducted everything with indefatigable zeal, and whose *Courtesy* came closest to realising the Carter-esque conflict between order and chaos.

Andrew Clark

The concert is broadcast on BBC Radio 3 tonight.

INTERNATIONAL ARTS GUIDE

BERLIN

CONCERTS
Philharmonie
Tel: 49-30-2548 8354
Berlin Philharmonic Orchestra: conducted by Mariss Jansons in works by Chabrier and Strauss; Jan 23, 24, 25

DANCE
Staatsoper unter den Linden
Tel: 49-30-2035 4555
www.staatsoper-berlin.org
Swan Lake: new staging by Patrice Bérthier; with designs by Luisa Spinelli; Jan 23

CHICAGO

CONCERTS
Orchestra Hall
Tel: 1-312-294-3000
www.chicagosymphony.org
Chicago Symphony Orchestra: world premiere of Sir Harrison Birtwistle's *Exodus*, conducted by William Eddins. The programme is completed by Beethoven's Violin Concerto in D Major, with soloist Itzhak Perlman;

Jan 24

LONDON

CONCERTS
Barbican Hall
Tel: 44-171-638 8891
London Symphony Orchestra: Shell LSO 21st Anniversary Concert. Conducted by Elgar Howarth in works by Mendelssohn, Jacobs, Cashian and Britten; Jan 21

Queen Elizabeth Hall
Tel: 44-171-980 4242
London Sinfonietta: 30th Birthday Benefit Gala. Including two world premieres, and John Tavener's *The Whale*. Markus Stenz conducts; Jan 24

St John's Smith Square
Tel: 44-171-222 1061
Adrienne Pieczonka: recital by the soprano of songs by Strauss, Zemlinsky, Tchaikovsky and Barber; Jan 27

EXHIBITIONS
Barbican Art Gallery
Tel: 44-171-638 8891

Shaker: The Art of Craftsmanship. First major exhibition of furniture and decorative arts from one of the most influential Shaker communities, Mount Lebanon. The show traces the origins of the Shaker movement from its origins in late 18th century England through its development in 19th century America to what became a philosophy and a way of life; from Jan 22 to Apr 26

The Art of the Harley: 30 customised motorcycles provide

the centrepiece of this display devoted to the 95 year history of the Harley-Davidson company; from Jan 22 to Apr 26

Royal Academy of Arts
Tel: 44-171-439 7438
Art Treasures of England: The Regional Collections. Display of some 500 paintings, drawings and sculptures which will tell the history of the public collections outside London, from the foundation of the first university museums in the 17th century to the present, including works by Canaletto, Hogarth, Turner and Francis Bacon, the exhibition will also seek to surprise with the works of less well-known artists; from Jan 22 to Apr 13

OPERA
Barbican Hall
Tel: 44-171-638 8891
Nixon in China: the UK premiere of Adams' opera is the opening concert of the "Inventing America" festival. Kent Nagano conducts the London Symphony Orchestra; Jan 25

LOS ANGELES

CONCERTS
Dorothy Chandler Pavilion
Tel: 1-213-365 3500
Los Angeles Philharmonic: conducted by Franz Welser-Möst in works by Mozart and Bruckner; Jan 22, 23, 25

OPERA
L. A. Opera, Dorothy Chandler Pavilion
Tel: 1-213-972 3001
www.laopera.org

Salome: by R. Strauss. Revival of Sir Peter Hall's celebrated production. Conducted by Richard Hickox, with Hildegard Behrens in the title role; Jan 21, 24, 27

MADRID

EXHIBITIONS
Fundació "la Caixa"
Tel: 34-1-435 4633
Joaquín Mir, 1873-1940: A Life's Journey. Retrospective of around 140 works by the landscape painter; to Jan 25

MANCHESTER

CONCERTS
Bridgewater Hall
Tel: 44-161-507 9000
BBC Philharmonic: conducted by Sir Edward Downes in Respighi's *The Pines of Rome* and Shostakovich's *Leningrad Symphony*; Jan 24

MILAN

OPERA
Teatro alla Scala
Tel: 39-2-88791
Il Cappelletto di Paglia di Firenze: by Rota. Conducted by Bruno Campanella in a staging by Pier Luigi Pizzi; Jan 23, 24

MUNICH

OPERA
Bayerische Staatsoper
Tel: 49-89-2185 1920

Anna Bolena: by Donizetti. Ralf Weikert conducts a staging by Jonathan Miller. Edita Gruberova sings the title role; Jan 21, 24

NEW YORK

CONCERTS
Avery Fisher Hall, Lincoln Center
Tel: 1-212-8755030
Israel Philharmonic: conducted by Kurt Masur in Beethoven's *Symphony No. 9*; Jan 21

New York Philharmonic: world premiere of Zorn's *Orchestra Variations*, conducted by Leonard Slatkin. Programme also includes works by Schumann, Schwaner and Copland. With percussionist Christopher Lamb; Jan 22

DANCE

New York City Ballet, New York State Theater
Tel: 1-212-870 5570
Jewels: by Balanchine, to music by Fauré, Stravinsky and Tchaikovsky; Jan 24

EXHIBITIONS

Metropolitan Museum of Art
Tel: 1-212-879 5500
www.metmuseum.org
John La Farge: more than 30 paintings and stained glass windows by the 19th century American; to Jan 25

OPERA

Metropolitan Opera, Lincoln Center
Tel: 1-212-362 6000
www.metopera.org

Capriccio: by R. Strauss. New production by John Cox, with

sets by Mauro Pagano; Jan 21

PARIS

CONCERTS
Salle Pleyel
Tel: 33-1-4561 6589
Orchestre de Paris: conducted by Gilbert Varga in works by Strauss, Kanceli and Dvorák. With cellist Mstislav Rostropovich; Jan 21, 22

OPERA

Opéra National de Paris, Opéra Bastille
Tel: 33-1-4473 1300
Tosca: by Puccini. Conducted by Jan Latham-Koenig in a staging by Walter Schröter. Maria Guleghina sings the title role; Jan 23, 27

ROME

OPERA
Teatro dell'Opera
Tel: 39-6-481601
www.themix.it
Le Nozze di Figaro: by Mozart. Production for the Teatro Comunale in Florence by Jonathan Miller. Conducted by Hans Graf; Jan 22, 24, 25, 27

SAN FRANCISCO

CONCERTS
Davies Symphony Hall
Tel: 1-415-364 6000
www.sfsymphony.org
San Francisco Symphony

Orchestra: conducted by Yan Pascal Tortelier in works by Brahms, Dutilleul and Ravel-Tortelier; Jan 22, 23, 24

TORONTO

OPERA
Canadian Opera Company, Hummingbird Centre
Tel: 1-416-363 6671
Hansel and Gretel: by Humperdinck. New production, previously seen in the US, designed by Maurice Sendak and directed by Frank Corsaro. The conductor is Randolph Behr; Jan 23, 25

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COMMENT & ANALYSIS

Lionel Barber



EU job jugglers

European commissioners should focus on their Brussels job and not use it as a stepping stone to greater things

Yves-Thibault de Silguy, the European commissioner for monetary affairs, this week announced he was no longer a candidate for political office in France. The prospect of Mr de Silguy stomping around Brittany in search of votes in the French regional elections never appealed to his colleagues. Most assumed he would be otherwise engaged in March preparing for the launch of the single currency.

More questionable was whether - in the event of a Gaullist victory - he would have been able to keep his Brussels job and build up an independent fiefdom as president of Brittany council reporting to Jacques Chirac, the president. Now that Mr de Silguy has withdrawn his candidacy, we will never know the answer.

It is tempting to dismiss this affair as a footnote in the annals of the Commission, a familiar tale of personal ambition overriding good judgment. That would be wrong. The story raises a point of principle: whose interests are European commissioners serving?

Those sympathetic to Mr de Silguy cast him as a victim of a misunderstanding. Dual mandates are standard practice in a centralised country such as France. Alain Juppé, former prime minister, served as mayor of Bordeaux. Dominique Strauss-Kahn, the telegenic Socialist finance minister, is being pushed to run in the Paris regional elections. Mr de Silguy, a career bureaucrat, was merely following a tradition of politicians seeking to stay in touch with the grassroots.

The argument ignores the fact that France is slowly decentralising, that the regions are increasingly important power bases, and that Lionel Jospin, the prime minister, is trying to restrict the *cumul des man-*

dats. Mr Jospin apparently has some sympathy with the public's view that multiple mandates are symptomatic of the French elite's belief that it can fit three jobs into a 24-hour day and still have time for a game of *pétanque* before lunch.

The case for a European commissioner holding two jobs is still harder to sustain. The European Union treaty states that the 20 members of the Commission may not engage in any other occupation, whether gainful or not. The French version is slightly more ambiguous, referring merely to "professional activity". But the spirit of the text is clear: the Commission's independence is paramount.

In practice, matters are not so clear cut. Commissioners do pursue extracurricular activities. Hans van den Broek, a former Dutch foreign minister who now handles relations with eastern Europe and Russia, has a standing invitation to return to The Hague to attend high-level discussions on Europe.

Mario Monti, who is responsible for the internal market, is president of Bocconi University in Milan - more than a ceremonial post. Edith Cresson, the second French commissioner, served as mayor of the small town of Châtelleraut.

The trouble starts with commissioners who have too much time on their hands or too little power to achieve very much

and sought re-election in 1995 just after Commission President Jacques Santer took office. But then not everyone finds it easy to say "No" to Mrs Cresson. She finally resigned as mayor late last year.

European commissioners can never stand completely above the fray. Nor should they. They owe their appointments to national governments. Their contacts with national capitals are important. A talented commissioner can convey unpleasant truths both at home and in Brussels.

When vital national interests are at stake, Brussels commissioners snap to attention. On British beef, the Flemish language, French textiles or German worries over pensions portability, the Commission divides on predictably national lines.

Commissioners must reconcile their roles as bureaucrats, diplomats and politicians all rolled into one. Some are more successful than others. Karel Van Miert, the Belgian competition commissioner, pulled off the balancing act brilliantly last summer when he challenged the Boeing-McDonnell Douglas merger and forced a partial retreat in Seattle and Washington. Sir Leon Brittan has left an indelible mark during a near 10-year career in Brussels, latterly as crusader for an open world trading system.

Those commissioners who master a technical brief and build a pan-European coalition are invariably the ones who do best. Those who enjoy powers under the treaties are arguably better placed to promote the collective European interest. But others, such as Emma Bonino, the media darling in charge of humanitarian aid, can appeal to a collective European conscience - especially when she drags the television cameras into Taliban territory in Afghanistan or the refugee camps in the Great Lakes area in Africa.

It took a gentle warning from Mr Santer and some public threats from the European parliament to dissuade him from launching a parallel political career in France. If he had only paused to reflect, he would have understood that his Brussels job is about more than being a mere bureaucrat. It requires political skills, too.

LETTERS TO THE EDITOR

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US government has given Emu an unequivocal welcome

From Mr Michael Elliott

Sir, It seems to have become an article of faith for your otherwise excellent columnist Lionel Barber and me, Philip Stephens ("Intellectual gulf", January 19), that US opinion is either ignorant of European economic and monetary union or opposed to it. They must visit a country other than the one I live in.

For more than a year, the US government's public policy and private conviction has been to welcome Emu unequivocally. (Indeed, the deputy secretary of the treasury said so in your own pages.) Opinion-formers in Washington and New York have been intimately acquainted with developments on Emu since the

Maastricht treaty; newspapers like the New York Times and Wall Street Journal (which has become an important champion of Emu) write about it regularly, as do the weekly magazines. The denizens of Wall Street are as likely to bore a dinner party with Emu talk as are those of the City, though - in my experience - with a better sense of the political realities. At last year's Davos World Economic Forum, I remember American businessmen forego sessions with Newt Gingrich to catch the latest Emu news, and I find it hard to think that this year's conference will be any different.

Where Mr Stephens is right is in his implication that US policymakers are not much bothered by whether or not Emu will affect US "leadership" in the post-cold war world. That is partly, I think, because many Americans would find it quite useful to share the burden of having a reserve currency. But it is mainly because Americans - when they think about it all - assume that their leadership has little to do with the status of the dollar, and everything to do with their technological edge, entrepreneurship, and unrivalled ability to project military power. They're right, too.

Michael Elliott, editor, Newsweek International, 251, W 57th St, New York NY 10019, US

R&D is now central to job creation

From Mr Georges Haour

Sir, Your article "The fifth element" (January 18) on the EU's fifth R&D programme provides useful insights into its management and budget, which, by the way, roughly represents only 3 per cent of the R&D investments, private or public, made every year by the 15 countries of the European Union. Rather than concentrating on inputs, however, I wish to underline two aspects of the quality of outcome.

First, the framework programmes have powerfully catalysed the emergence of a truly borderless R&D community, in particular in the last 10 years, academics have rapidly grown to know their peers much better in other countries, drawing on Europe's unique richness of diversity. The fact that Switzerland is so keen to be part of this process is a testimony to this fact.

Second, the fifth programme has been prepared in the context of the EU Commission's "Green book on innovation". Such a dynamic powerfully reinforces the message that R&D investments must be envisaged as the central ingredient for wealth- and job-creation. It is vital that European taxpayers and members of the funded projects fully realise this further shift away from capability-building towards technological innovation for growth.

Georges Haour, professor of technology management, IMD-International Institute for Management Development, Lausanne, Switzerland

EU helping banana producers adapt

From Mr Philip Lowe

Sir, Your leader, "Banana fudge by Brussels" (January 16), concerning the European Commission's proposal to modify the European Union's banana import regime, accuses the EU of having failed to assist the Caribbean banana producers in improving their efficiency.

In fact, since the existing banana import regime was introduced in 1993, the EU has allocated financial assistance totalling Ecu220m (£166m) to traditional African, Caribbean and Pacific (ACP) banana suppliers.

Of this amount, more than Ecu150m has been made available to the Windward Islands (Dominica, Grenada, St Lucia, St Vincent), which are particularly dependent on bananas and where geographical and climatic conditions render competi-

tive banana production difficult.

This assistance is being directed into three main areas: restructuring of the industry to improve productivity and quality; economic diversification to promote alternative sources of income and employment; social and community development programmes through education and new skills development.

The amendments to the banana import regime now proposed by the Commission are intended to bring it into line with the EU's commitments under the World Trade Organisation. At the same time, we must also respect our commitments to the ACP countries under the Lomé Convention.

The proposal to establish a special framework of technical and financial assistance is intended to fulfil this com-

mitment and proposes a further Ecu45m a year in aid over the next five years and a total of about Ecu370m over 10 years.

Given the genuine difficulty of implementing programmes on the ground to absorb these amounts, it is misleading to describe, as you do, these various schemes for EU aid to the banana producing countries as "miserly".

Rather, our proposals demonstrate that, as in the past, the EU will continue to support ACP banana producers' efforts to adapt to new market conditions.

Philip Lowe, director-general, European Commission, Directorate-General VIII, Development, Rue de la Loi 200, B-1049 Brussels, Belgium

Agriculture too important a ministry to be abolished

From Mr J. G. Cousins

Sir, Your excellent leader "A safe plan for food" (January 15) was completely spoilt by the preposterous suggestion in the final sentence that the remains of the Ministry of Agriculture, Fisheries and Food should be closed down. I am but on the

fringe of agriculture - I produce a small amount of wool and sheep meat and free range eggs (fowl, duck and geese) - and I would prefer to leave it to others better qualified than I to make the case for MAFF. May I just make three points:

● The production of the

nation's food is too important to be left purely to market forces - a point ably made by David Richardson, your erstwhile agriculture correspondent;

● No government in the western world, as far as I am aware, is devoid of a ministry of agriculture;

● I have received tremendous help and support from MAFF in my efforts to improve the environment on my few acres.

J. G. Cousins, "Downlands", Small Dole, Henfield, West Sussex BN5 9XB, UK

Personal View • E. Wayne Nafziger

Root of human suffering

Poverty and poor government are the main causes of humanitarian disasters

Every month we read new stories of atrocities in countries such as

Afghanistan, Bosnia, Burundi, Congo and Rwanda. The perception that there are more such disasters than there used to be is correct. Since 1990, the number of humanitarian emergencies - identified by deaths and refugees from internal conflict - has increased from 20-25 a year to about 65-70. The number of people affected has risen several fold to more than a million.

These increases have not been affected by just one or two spectacular events, such as the wars in Bosnia or Rwanda. In 1997, when the violence of both those events had ebbed, thousands of people still died from war, genocide, hunger and disease, and millions became refugees. The same, it seems almost certain, will be true in 1998.

Is it possible to prevent this scourge? In the short term, refugee aid serves as a bandaid. But, according to our research at the UN University, in the longer run, there are cheaper strategies to reduce the risk of humanitarian disasters.

Our work, conducted by 42 scholars, used an econometric analysis of 124 developing countries over the past 16 years, combined with case-study evidence from 15 countries. The aim was to examine the sources of humanitarian emergencies.

Many people believe that humanitarian disasters are ethically determined, arising from differences of language, race, tribe or national origin between disputants. These differences, it is thought, are so deeply rooted

that they are not amenable to economic and political reform: violence cannot be avoided. That is too pessimistic a conclusion.

Our research focuses on the contribution to humanitarian crises of two factors: national income and the role of the government. Both provide some reasons for modest optimism, or at least subjects for action.

It is obvious that wealth makes a huge difference. If not to whether ethnic differences exist, but to the extent of the problems they cause. Canada and Spain both contain minority language regions but, despite political conflicts, neither Quebec nor the Basque country have tipped into humanitarian disaster. Nor has Northern Ireland, despite a high level of violence. Wealthy countries rarely experience humanitarian disaster.

This connection between income and disaster avoidance is not something that occurs only in industrial economies. Our research shows that among the 124 developing countries a doubling of income per person decreases the probability of a humanitarian crisis by 13 per cent. Obviously, there are exceptions: Sri Lanka is a relatively prosperous country blighted by civil war. The same is true of the former Yugoslavia.

But, by and large, the connection holds and the reason

Often, the problem comes not from an aggressive government but from rival governing groups struggling for scarce resources

seems to be that the poorest countries are blighted by macro-economic instability, rapid inflation and large income differentials. These produce feelings of relative deprivation and crises of unfulfilled expectations, which can be channelled into ethnic violence. This is particularly associated with countries which are not merely poor but which have experienced protracted economic decline (especially of food output). More than half the countries experiencing emergencies in the 1990s had a decline in average incomes in the 1980s. All these provide further reasons for seeking economic growth and stability.

The second lesson from our research concerns the government. Humanitarian emergencies are caused mostly by the actions of the state and only rarely by insurgents. This was true in Rwanda, where the then government organised, and used the media to publicise, genocide. It was also the case in the former Yugoslavia. Governments tend to act in this way when the economy is declining. This reduces the number of their allies, undermining their power and increasing the probability of political instability. To forestall such threats, ruling elites often use political violence to steal an even larger share of the population's income. A particularly clear example was Sudan in the 1980s, when the government directed violence against the politically disobedient Dinka and Nuer tribes.

Often, the problem comes not from an aggressive government but from the struggle between rival governing groups for scarce resources, such as education or revenue allocation. Examples include the struggle for oil revenues and employment in government in Nigeria in the 1960s, and the conflict between Hutu and Tutsi for the control of the state and access to employment in Burundi and Rwanda.

These two factors - pov-

erty and governmental action - explain why Africa has suffered more than its share of humanitarian disasters since 1990. African political leaders faced increasing pressure from declining income. External pressure by the World Bank, International Monetary Fund and western donors to cut the size of the state in order to encourage economic stability in practice triggered increased competition for governmental resources and ended up contributing to greater instability.

An analysis of the root causes of humanitarian crises indicates that the mechanisms for preventing them are primarily macro-economic. Prevention requires greater international support for income stabilisation and adjustment planned by the developing countries themselves, a reduction in trade barriers against Africa and Asia, compensatory financing to cushion external economic shocks, and rescheduling and writing down the debt of poor countries. It would also help to reduce the international trade in arms, which are used by governments to kill their rivals.

For their part, low-income countries need to provide safety nets for the poor and universal basic education, emphasise agricultural development, and improve the capacity of the state to collect taxes and provide services. All these things are worth doing for other reasons. But reducing humanitarian emergencies would be a great side benefit. Unless it is done, the world will continue to spend vast sums on food aid, peacekeeping and diplomacy to cope with humanitarian emergencies.

The author is a senior research fellow and co-director of research on humanitarian emergencies at the UN University's World Institute for Development Economics Research in Helsinki.

Software Winner



Ron Dennis, Managing Director, McLaren International

McLaren is one of the winningest teams in Formula One history. Since 1966, McLaren has won seven Constructors' World Championships, nine Drivers' World Championships and more than 100 Grands Prix. Not to mention three Indianapolis 500 wins, the LeMans 24 hour endurance race and five consecutive Can-Am sports car titles.

West McLaren Mercedes

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"I have a favorite saying, that is, to come in second is to be the first of the losers," says Ron Dennis. "At McLaren we're interested only in winning and we associate ourselves only with winning companies. With Computer Associates and McLaren, we have two winning companies sharing a common goal and common partnership."

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FINANCIAL TIMES

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Wednesday January 21 1998

Euro-voice in finance

When US Treasury officials journey around Asia, their stay-at-home European counterparts become jealous. US policy-makers respond by complaining that Europe's failure to speak with one voice makes closer co-operation infeasible. An obvious question is whether the euro will make much of a difference. The answer is that it could – but will not do so automatically.

The Asian crisis has once again demonstrated the central roles played by the US, as leader, and the International Monetary Fund, as chief agent, with others reduced to paying the cheques. US leadership is usually essential and often sensible, but its dominance creates understandable frustration.

The opportunity for Europe to play a bigger role would appear to be given by economic and monetary union. Members of the euro area will be represented by a single European Central Bank. Thus, in global monetary affairs it may soon be possible to talk of a group of three, with all other central banks being marginal players.

The difficulty lies where national finance ministers continue to hold sway. Here there are two broad categories of issues: those closely related to the euro, such as the exchange rate, and those where policy will remain largely national, such as taxation.

Common policies will have to be negotiated among the mem-

bers of the euro-zone. Then someone representing the new committee of euro finance ministers should present it. That spokesman need not be – probably should not be – a representative of the European Union's six-month presidency.

Where policy is subject to national responsibility, it will still be necessary for countries whose policies have considerable international impact to participate individually in global discussions. Over time, however, it may be possible to agree these policies, too. In that case it will, once again, be possible for a single representative of the euro finance ministers to present them.

Yet this shift towards collective representation need not make the process of global coordination much simpler. It should be simpler where the central bank alone is concerned, since it is a single body. But it will not be in virtually every other policy area, since Europeans will be increasingly committed to a two-stage negotiation, first among themselves and then with counterparts abroad. To become more effective, Europeans will have to streamline internal discussions.

Yet the aim must be not just to give Europe a louder voice in the world, but one worth listening to. The creation of the euro will not of itself give Europeans a wiser perspective on the world. But it should give them an incentive to develop one.

After Castro

The visit that begins today of Pope John Paul II to Fidel Castro's Cuba brings together two of the great icons of the late 20th century. Yet the meeting of the two septuagenarians offers more than symbolism; it is an important opportunity to create a bridge to Cuba's future.

That future will, sooner or later, be one without Fidel Castro. Yet nobody has any idea what sort of future it will be. In the worst case, the island will be riven by violent struggle. It is in Cuba's interest and that of its neighbours – including the US – that this does not happen. It is also in Mr Castro's interest, for he must want to preserve the gains of his revolution. These – for example, in healthcare and in education – have come at a heavy cost in personal liberty, and they are tainted by the economic privation of the past eight years. But they are gains all the same.

Few men have the moral and intellectual stature to engage Mr Castro about what happens when he goes. Perhaps the frail pontiff – no friend of unbridled capitalism in spite of his antipathy to communism – is the only person who can, and in the process begin mediation with the US.

The opportunity for accommodation with Washington may have grown with the death last year of the powerful leader of the hardline US exile opposi-

tion to Cuba, Jorge Mas Canosa. This leaves scope for a gesture towards Cuba by President Bill Clinton. He has freedom to act in any case because he faces no further elections. A more mature debate than has yet been possible in the US about American interests in Cuba can thus begin.

There have been some modest signs of willingness in Washington to ease the US embargo on Cuba for medical supplies, for example. This would help many ordinary Cubans who have suffered most from the deep economic recession caused by the collapse of the Soviet Union, Cuba's financial sponsor for 30 years.

Cuba's economy has revived somewhat since the trough of 1993-94, but not by much. Mr Castro is dreaming if he believes that conditions are in place for any significant improvement in the island's economic fortunes.

A process of engagement between the US and Cuba would be unlikely to yield rapid results and would require a genuine desire on both sides to find a solution. Mr Castro may prefer to ignore the question of what happens after he goes – and enjoy the cheap but transient propaganda benefits that the Pope's visit will generate. But if he does, he may miss an unrepeatable chance to give his revolution a future.

Africa's debt

The world's richest nations meet today to discuss the fortunes of one of the poorest. For the fourth time in as many months, members of the Paris Club of bilateral creditors will be trying to reach agreement on the level of debt relief they are prepared to offer Mozambique.

Compared to the \$400m-plus bailout of Indonesia, they are being asked to underwrite the extra \$350m they must find to bring this impoverished country's debt within its capacity to service. It is modest in the extreme. Having swallowed a camel, the Club is now straining at a gnat.

Yet the outcome of the Paris meeting is not only critical for Mozambique, struggling to recover from a 16-year civil war in which more than 1m people died. At stake is the joint World Bank-IMF initiative launched in September 1996 to reduce the debt of highly indebted poor countries – most of them in Africa – to a manageable level.

Implementation of the plan to relieve Mozambique's \$5.6bn debt has been held up by disagreement in the Paris Club on what proportion of their lending to the country should be eligible for relief. The Bank and Fund maintain that it must be 90 per cent if Mozambique's debt servicing is to be sustainable. That view is shared by Britain and the US. But Japan and Germany are understood to be insisting on a ceiling of 80 per cent.

Paris Club members are owed the most, so their decision is critical to a deal, because a condition of the initiative is that the burden must be shared proportionally among all creditors. While it would be the first time the club had offered relief for more than 80 per cent, it would be setting a precedent that few other countries could follow because Mozambique is both uniquely disadvantaged and unusually deserving.

It is suffering the consequences of a civil war that left its economy devastated and its infrastructure in ruins. Of a population of 18m, about 10m have no access to clean water, and about 190,000 children die each year before the age of five. And it has held multi-party elections following a peace agreement in 1992, coupled with reforms to deregulate the once-socialist economy, putting the country on the path to recovery.

But Mozambique is burdened by an external debt nine times the size of its annual exports. The amount it spends on servicing that debt is four times what it spends on health. This is not only unsustainable, it is morally unacceptable. Yesterday the Archbishop of Canterbury urged Africa's creditors to mark the millennium "by relieving her of the burden of unpayable debt". Mozambique is the right place to demonstrate the "moral courage" he is calling for.

Italy's picture of health

James Blitz looks at the extraordinary transformation of the country's prospects of joining Europe's single currency

Pinch yourself. It now looks a pretty safe bet that Italy will be a founder member of Europe's economic and monetary union at the start of next year. That is the likely upshot of Monday's meeting of European Union finance ministers. Only 20 months ago, when the centre-left government of Romano Prodi came to power, the prospect of Italy being in the first wave was considered unthinkable by its partners. The turnaround is startling.

Until recently, Italy had a stack of problems that towered above those of any other European Union state. The lira had been expelled from Europe's exchange rate mechanism in 1992. The budget deficit – almost 7 per cent of gross domestic product in 1996 – looked out of control. There were massive demonstrations against the government's main public-finance policy, pensions reform. The government of former prime minister Silvio Berlusconi was mired in scandal and Italy's attempts to clean up its corrupt ruling class looked, to put it politely, disappointing.

Yet in the period Mr Prodi has been in office, Italy has transformed itself. It has not overcome all its problems of course (notably corruption). Nor are its improvements necessarily permanent. But from being a rank outsider in the Emu stakes, the Prodi administration is turning Italy into a country whose entry into a single currency is now regarded as a racing certainty. How did it do this?

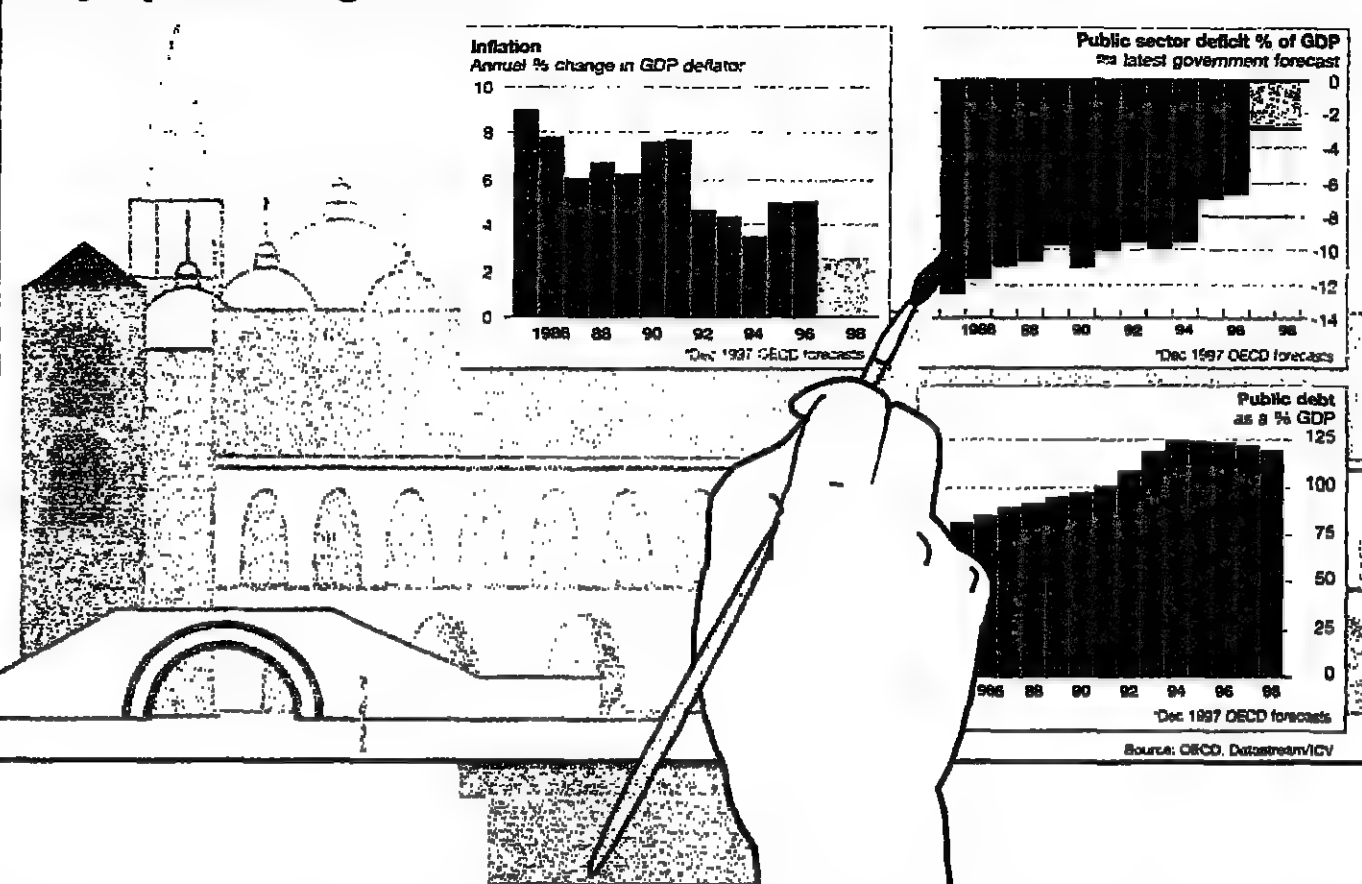
Part of the explanation comes from events outside Italy's borders. The determination of Lionel Jospin's government in France to have a softer euro has strengthened the case for Italian membership. The French government is clearly keen to have an Italian counterweight to Germany within the newly created European Central Bank. There is the suspicion, too, that France may fear the consequences of leaving Italy out of the euro, allowing the Italians to wield the weapon of devaluation to boost exports at its neighbours' expense. All that is accepted even inside the Italian political establishment.

But France's determination – now endorsed by the German government – to allow Italy in would have come to naught if Mr Prodi and his allies had not achieved a remarkable turnaround in the public finances. At the end of 1996, the budget deficit was 6.7 per cent of GDP, easily the largest among the big countries of the EU and more than twice as much as the Maastricht criterion. The figure for 1997 is expected to have dropped to below 3 per cent, meeting the Emu target.

Annualised Italian inflation in 1997 was 1.7 per cent, less than half the previous year and at a 30-year low. Mr Prodi himself, after nearly losing office last October when the rump of the Communist party stopped supporting his coalition, has since shown a sure political touch.

None of this has entirely crushed the concerns of some politicians and central bankers across Europe about Italy's fitness for Emu. Concern centres above all on Italy's public debt, which, at 122 per cent of GDP, is more than twice the Maastricht criterion and is, in value terms,

Italy's painstaking restoration



easily the largest in the euro area. Gerrit Zalm, the Dutch finance minister, recently hinted he might resign if Italy made it into the single currency. A Bundesbank council member, Klaus Dieter Kuehnbacher, said last week that Italy would have to be "more critically assessed" than other EU states in its Emu bid because of its debt. Comments like these will echo in central banks and government departments across Europe between now and May, when the final decision is taken on which states qualify for Emu.

But the fundamental lesson of the past few days is that none of this sniping over Italy's finances has breached the Franco-German political consensus that the lira must be in the first wave. Monday's meeting of EU finance ministers was a last chance for the Dutch to raise formal concerns about Italy and Emu but Mr Zalm remained silent. Meanwhile, Chancellor Kohl's visit to Mr Prodi last night was being hailed in Rome at least as signalling a warming of the relationship between the two men in the final stage of Italy's Emu bid. The leader of the country most associated with scepticism about Italy's readiness now seems to be seeing for himself how the worries are being overcome.

Yet it is one thing for Italy to get into Emu, quite another for it to stay there. So, with Monday's meeting over, the focus of attention is beginning to move away from what the Italians have achieved over the past two years to what they need to do over the next 10. There are two big concerns: how quickly can Italy reduce the level of overall debt so it poses no further problem to the public finances? And how quickly can the Prodi government reform Italy's inefficient private sector

and rigid labour market to ensure the country does resist external economic shocks in the more competitive euro area?

The size of the public debt is the more immediate worry. When it joins Emu, Italian interest rates will fall (towards German rates), which will cut annual debt repayments. But the fear is that, unless the debt comes down quickly, Italy will later be exposed to sudden rises in short-term interest rates that increase debt repayments and make it hard to keep the annual budget within the terms of the EU stability pact on economic policy after Emu. According to HSBC Markets in London, Italy's cost of debt servicing would, on average, move up by 0.8 per cent of GDP for every half a percentage point rise in short-term rates.

Moreover, a speedy reduction in the public debt is essential because Italy will face increased pension liabilities in the second decade of the next century when the "baby boom" generation starts to retire. According to Italian treasury figures, the reforms introduced thus far will contain pensions spending at or below 14.5 per cent of GDP – double the EU average – until 2007. But that figure is set to rise to 15.8 per cent after that.

To counter these concerns, Carlo Azeglio Ciampi, Italy's treasury minister, last week published a plan that, it claims, could halve the debt ratio to 60 per cent of GDP in 2008. The assumptions are certainly ambitious: to do this, Italy would need growth in nominal GDP of 4.5 per cent a year and a primary budget surplus (excluding interest repayments) of 5.5 per cent.

Dr Klaus Friedrich, chief economist at Dresdner bank, believes these figures are so tough that they are "frightening". In his

view, maintaining a primary surplus at this level over 12 years would imply there could be little easing of the high tax burden on Italian families over the next decade and little room for public spending increases.

The Italians claim it is not as bad as this and that they have some room for manoeuvre. Francesco Giavazzi, a former deputy director general of the treasury, argues that the government could speed up Italy's privatisation programme, using the proceeds to reduce the debt stock. If this is to happen, he says, it is critical that Mr Ciampi announce plans to press ahead as fast as possible with the sale of the rest of Eni (the state-controlled oil and gas conglomerate) and Enel (the state electricity company).

Prof Giavazzi also believes the government must start slimming down the central government machine, one which has, for example, 27,000 employees at the treasury and 10,000 working at the Italian state's job placement office. The problem with all these reforms, however, is that they require broad agreement from Italy's far-left coalition partners and the country's powerful trade unions.

The second big long-term concern for Italy will be whether the inefficient bits of the private sector can improve enough to compete in the newly competitive single currency area. The fear is that inefficiency and overmanning in some sectors – particularly banking, finance and parts of industry – is so bad that it could result in short-term shocks that increase unemployment sharply. There are fears, too, about the rigidity of Italy's labour market, with high and stagnant unemploy-

ment in the south and large numbers of companies unable to fill job vacancies in the north.

The Prodi government shows every intention of wanting to tackle this issue but is coming up against the power of Italian unions. The government has for months been trying to get an agreement between industry and the unions to cut the number of workers in the banking sector by some 40,000. No deal has yet been reached. Similar attempts are being made to cut jobs in the state railway service – currently losing some 14,000 a year – again without success. Mr Prodi recently announced a deregulation of Italy's rule-ridden retail sector. Here, too, he is facing resistance.

"It is in the area of competitiveness," says Professor Giavazzi, "that Italy runs the real risk in the long term. The country will be accepted into Emu by its European partners who view Italy as a big market into which they can sell their goods and services. But there could be a short-term adjustment in terms of job losses which Italians are not expecting, and the Italian public may find, to their surprise, that the people running their banks are located in other parts of Europe."

Professor Giavazzi does not think Italy will lose out from joining Emu. Italy has always benefited from having an external constraint. Once it was anti-Communism and Nato. Now it is the Franco-German goal of monetary union. But what Italians may not yet have realised is that the wrenching transformation needed to get the country into Emu will pale into insignificance compared with the transformation that will be required to keep it there.

OBSERVER

Industrial chemistry

■ Plenty of head-scratching among drug industry bosses about the reported merger of SmithKline Beecham and American Home Products. But whatever the industrial logic, the deal looks like an almost perfect fit in the boardroom.

Jack Stafford has been running AHP for more than a decade. But the tough lawyer lost his belt-and-suspenders summer when Fred Hassan upped sticks to run Pharmacia & Upjohn. At 60, and following a recent bout of serious illness, Stafford might like to cap his career with a mega-merger before making a graceful exit.

Hyperactive 5B boss Jan Leschley may also feel it's time for a change. It's three years since the former tennis champ served up his last set of deals: he's only 55, but industry insiders don't expect him to remain chief executive into his dotage. A post-merger reshuffle – with Leschley moving up to say, co-chairman – would probably suit the SB camp. All the more so if the energetic JP Garnier, impatient with playing second fiddle to Leschley, could slip into the top executive slot.

Of course, talks might founder on trifling disagreements over the odd billion dollars. But in an

industry full of volatile types, wouldn't it be nice to see a deal where the chemistry is right?

Mart times

■ Observer hears that Chicago's enormous art deco Merchandise Mart, a linchpin of the Kennedy family's commercial empire since the 1940s, is for sale.

So has the Kennedy clan hit hard times? There have been signs of strain recently – the authoritative Crain's Chicago Business says family companies borrowed \$35m against one Chicago property last August, and in 1996 added \$30m to a \$190m mortgage on the Mart.

Many family members have followed relatively modestly paid political careers while maintaining millionaire lifestyles, and re-elections – like Senator Ted Kennedy's campaign a few years ago in his home state of Massachusetts – are expensive. Divorces and maintenance settlements can't have helped, so the current strength of the Chicago property market seems a golden opportunity to generate some cash. The Mart is expected to fetch about \$400m.

No change

■ Brussels yesterday celebrated – if that's the word – 40 years of

European competition policy with a lunch for its founding fathers, Hans von der Groeben, the first competition commissioner, and Pieter VerLoren van Themaat, the first director-general.

Van Themaat said he could never get Belgian ministers to toe the line. "That is still the case today," sighed former Belgian minister Karel Van Miert who, as the current competition commissioner, leads the continuing struggle to sell the virtues of competition to his reluctant native land.

Zigzag path

■ Indonesia's President Suharto seems to have his eye on science and technology minister Bakharuddin Yusuf Habibie as his presidential running mate. Habibie, a Suharto protégé since childhood, is the best fit for yesterday's presidential wish-list of being "loyal, with a knowledge of science and technology and able to perform in international forums".

If the 61-year-old German-educated engineer gets the second-top job, he might test out the "zigzag theory" he came up with last year to solve the country's persistently high interest rates. The idea was that rates should be slashed, pushed up again to fend off overheating, then slashed again: the cuts

would be deeper than the increases, giving a somewhat jagged downward trend.

With the rupiah on the floor, some original thinking is certainly called for, though the zigzag sounds a little too eccentric judging by their reaction yesterday, the markets certainly think so.

Flower power

■ Bonn technology minister Jürgen Rüttgers had to admit yesterday that Germany has some way to go before boffins can turn it into Europe's leading biotechnology centre.

Apparently the internationally renowned Max-Planck research institute recently wanted to move a genetically altered petunia from Cologne to an exhibition in the nearby town of Wesseling. To help the authorities protect the public, researchers had to complete a mountain of paperwork, including a precise description of the route, and nominate a "biological security officer" to ensure that the plant stayed under a glass dome.

Much of the case of the lonely little petunia in its onion-shaped dome had its origins in European Union rules which the Bonn government wants to change. But there are plenty of home-grown restrictions waiting to be pruned.

Financial Times

100 years ago

A Respectable British Island Very few people, unless they are connected with the Foreign or Colonial Offices, know much about Rodrigues, or care very much either. For the information of the majority, we may inform them that it is not the name of a Spanish brigand, but of a respectable British island, connected with our Dependency, the Mauritius. It is eighteen miles long and six miles broad, and Mr. Colin, our Resident Magistrate, has written a book about it. It takes some time to bring the voluminous statistics of Rodrigues into order, so it is not surprising that the figures given do not cover a more recent period than 1896. From an inspection of these we gather that crime diminished, although more persons were convicted.

American Railroads It is a promising sign of the times that during 1897 only eighteen American railroads went into the hands of Receivers, and of those only three were lines of any importance, or of which anything is ever heard over here. The list of Receiverships is a sort of barometer, going up or down according to the commercial condition of the country. Thus in 1876 there were 42, and then the number fell away each year until in 1881 there were only five.

COMPANIES AND FINANCE: THE AMERICAS

Lucent outshines Wall Street forecasts

By Nicholas Denton
in San Francisco

Lucent Technologies, the US telecommunications equipment supplier, has outperformed Wall Street expectations when it announced its quarterly results yesterday.

Earnings, excluding one-time charges, were equivalent to \$1.72 a share, far exceeding the \$1.52 consensus estimate of analysts polled by First Call.

Lucent shares, which have tri-

pled since the maker of switches and other telecommunications equipment was spun off from AT&T and taken public in April 1996, jumped more than 6 per cent in morning trading on the New York Stock Exchange. The shares, which traded up 34¢ at \$90.40, valued the company at \$50.8bn, about half the market capitalisation of the remaining AT&T, the largest US long-distance carrier.

Since it became independent, Lucent has won more business from carriers other than AT&T. As the largest US telecoms equipment

company, it has also benefited from the growing readiness of large telecoms operators to concentrate their orders among a few suppliers.

While medium-sized equipment makers such as ADC have blamed sluggish demand for disappointing results, Lucent reported that operators were gearing up for heightened competition as 1996 deregulation law takes effect.

"More and more, service providers who are facing liberalised and deregulated markets are investing in technology to improve their

competitiveness," said Richard McGinn, president and chief executive of Lucent, who was also named chairman yesterday.

In addition, Lucent's sales to the competitive local exchange carriers, the small companies which are challenging the regional Bell companies, doubled quarter-on-quarter, although the precise amount was not disclosed.

Lucent's growing market share in the US translated into a 31 per cent increase in net income, to \$1.12bn in the quarter, excluding one-time charges to do with the

company's acquisition of Livingston Enterprises and other deals.

Revenues in the quarter, the first of Lucent's financial year, increased to \$3.72bn from \$7.93bn a year ago. They were boosted by sales of both switching equipment and wireless systems, in which Lucent had lagged behind competitors such as Ericsson of Sweden.

Lucent, which is a former AT&T subsidiary, is among the most US-centred of telecoms equipment suppliers, experienced no slowdown in Asia, where its market share is small but growing.

AMERICAS NEWS DIGEST

LGT receives multiple offers

More than one buyer is understood to have made an offer for the whole of LGT Asset Management, the fund management group with operations in both the US and Europe. The deadline for offers closed at 5pm New York time on Monday and Prince Philip of Liechtenstein and other royal family members who own LGT were considering the bids yesterday.

A decision on the fund manager, which has assets of about \$65m worldwide, could come as early as today, although advisers to the deal said that some offers could involve complicated provisions.

Offers are understood to have been made by US and European groups including American Express, Deutsche Bank, Credit Suisse and the Bank of Luxembourg.

Jane Martinson

MANUFACTURING

Eaton, TRW surprise Wall Street

Eaton Corporation, the controls and automotive component maker, and TRW, a diversified industrial manufacturing group, yesterday announced better than expected earnings for the final quarter of 1997. But they made some cautious remarks about impact of upheaval in Asia.

Eaton made an after-tax profit of \$129m in the final three months, up from \$96m a year ago. This took after-tax profits for the full year to \$410m, compared with \$349m previously. Sales rose from \$6.96bn to \$7.56bn, while earnings per share were up from \$4.91 to \$5.65 (ahead of special items) - a couple of cents higher than analysts' average projections.

The company said it faced "robust conditions" in the industrial and commercial controls markets, and that it was "too early to determine the impact of the Asian economic crisis on our customers' demand for front-end processing equipment" on the specialty controls division.

TRW reported a 15 per cent increase in full-year profits from continuing operations at \$499.4m, on a 10 per cent sales gain at \$10.8bn. Earnings per share were \$4.03, compared with \$3.27 (ahead of special charges). TRW said that results had been good "in virtually every dimension", although profits in the fourth quarter from its automotive interests dipped slightly. This was partly blamed on weakness in the Asia-Pacific and Brazilian regions.

Nicki Tadi, Chicago

ROCKWELL

Chairman 'confident' of advance

David Davis, chairman of Rockwell International, said yesterday that good economic conditions in the US and Europe had left the company confident that it would report higher sales and earnings this year, in spite of the uncertainties in Asia. His comments came as the California-based factory automation and aerospace equipment company topped Wall Street expectations with earnings per share of 74 cents before a one-off charge for the first quarter. The 6 per cent advance was due to a 6.3 per cent reduction in the number of shares outstanding, as the company continued to buy back its own stock.

Net income before the charge, which reflected a write-off of purchased research and development, was \$152m on sales of \$2bn, compared with \$154m on sales of \$1.9bn the year before. Including the charge, reported earnings fell to \$80m. Rockwell recorded higher operating earnings in its automation and avionics businesses, which recorded a 15 per cent increase in profits between them, to \$21m. This was offset by a 47 per cent fall in earnings from semiconductor, to \$43m.

Richard Waters, New York

ENERGY

Enron advance fuels share rise

Shares in Enron climbed nearly 5 per cent yesterday morning as the Houston-based energy group beat most Wall Street forecasts with earnings of 53 cents a share in the final quarter, a 10 per cent rise on the same period a year before. Net income rose 29 per cent to \$188m.

The stronger earnings came at the end of a year in which Enron had taken after-tax charges of \$537m, moves which the company said would remove some of the uncertainty of contingent liabilities from its balance sheet and leave it with a stronger platform from which to grow. The charges reflected the settlement of a dispute over the J-block gas contract and depressed margins in the MTBE business. They were offset in part by a \$66m after-tax gain from asset sales. Full-year net income fell from \$644m, or \$2.16 a share, to \$103m, or 32 cents.

Richard Waters

HOTELS

Hilton hits revised forecast

Hilton Hotels, which at the end of last year saw its \$8.8bn hostile bid for ITT hotel and casino group defeated, yesterday reported fourth-quarter earnings before non-recurring charges and an extraordinary loss of 25 cents per share.

In December, Hilton shocked Wall Street by announcing that it expected fourth-quarter earnings to be between 25 cents and 29 cents per share, well below analysts' expectations of 37 cents a share. In the same period the year before, Hilton achieved earnings per share of 24 cents.

Hilton said that the non-recurring items in the quarter resulted in a pre-tax charge of \$119m, or 28 cents a share, on an after-tax basis. It included a write-off of expenses related to the company's failed attempt to acquire ITT.

William Lewis, New York

AIRLINES

Northwest sees further growth

Northwest Airlines said it saw more earnings growth in 1998 but it was scaling back operations in poor-performing Pacific routes. The company reported fourth-quarter operating net profits per diluted share of \$1.06, compared with 19 cents a year earlier and a First Call estimate of 94 cents. Northwest said it was comfortable with analysts' estimates that put the airline's 1998 earnings at \$5.60 a share. First Call's consensus projection was \$5.68.

Agencies, New York

US banks post strong final quarter

By John Authers in New York

US commercial banks continued to report strong performances in the fourth quarter of last year, even though the Asian crisis sharply dented profits at the largest international banks.

Bad credit-card debts - a serious problem for the industry in the past two years - appeared to have reached a plateau, while both retail and corporate banking turned in strong results.

Chase Manhattan, the largest US bank by assets, saw operating earnings for the quarter drop 6 per cent from the same quarter of 1996 to \$550m. This was mostly due to trading losses caused by the Asian currency crisis. Its domestic US businesses stayed strong. Chase's total fees for loan syndication rose 20 per cent to \$1.14bn for the year. The year-on-year increase for the

Mixed bag

Bank results
(Fourth quarter ended 31/12/97)

	1997	1996	% change	1997	1996	% change
Net income (\$m)						
Chase Manhattan	574.0	605.0	-4.8	1.84	1.74	+11.5
Citicorp	1,061.0	985.0	+7.7	2.99	2.84	+5.3
J.P. Morgan	371.0	418.0	-11.0	1.88	2.04	-8.0
Wells Fargo	598.0	520.0	+15.0	1.60	1.42	+12.7

Source: company reports

fourth quarter was 68 per cent. Income from mortgage banking stood at \$180m, up 70 per cent on the previous year.

Net charge-offs from its \$39.3bn credit-card portfolio came to 5.45 per cent, ahead of the 5.11 per cent recorded in the final quarter of 1996 but a decline from the third quarter.

Citicorp, the second largest bank, reported net

income of \$1.1bn for the quarter, up 7 per cent year on year. It was also affected by Asian developments, which it estimated cut profits by \$250m.

Net income from credit cards worldwide was \$20m, down \$75m from the 1996 quarter. Emerging markets accounted for \$48m of this decline, while the US accounted for the bulk of the remainder.

Citicorp is the largest US credit-card issuer, but reduced its total number of cards during the year by 2 per cent, as part of a campaign to improve the quality of its portfolio. Total charge-offs were 5.64 per cent of the portfolio, up slightly from 5.58 per cent in the previous quarter.

These developments were balanced by a strong performance in commercial banking, both in Asia and in the US. The bank continued to invest aggressively in emerging markets, as part of its strategy of building up market share. Operating expenses in emerging markets reached \$355m, up 21 per cent after the effect of currency fluctuations.

Ohio-based Banc One pleased the market with results showing continued low expenses following its acquisition of First USA, a specialist credit-card issuing bank early last year. Net

profits increased 28 per cent from \$370m a year earlier to \$474.8m. It said credit card charge-offs had been reduced. By mid-session its shares were up 3¢ at \$54.4.

Wells Fargo, which has been unpopular with investors for the past year after its disappointing progress in integrating its 1996 acquisition of Los Angeles-based First Interstate, reported net income of \$298m for the quarter, more than double the \$123m it recorded in the same quarter of 1996.

However, analysts were disappointed by the bank's efforts in reducing expenses. Total non-interest expenses for the quarter were \$1,059m, down 26 per cent on the \$1,480m recorded a year earlier. But expenses for the year, at \$4,546m, were only marginally below 1996's \$4,585m. The bank's shares gained 32¢ at \$34.4.

Lex, Page 16

Barrick stake sold for \$520m

By Scott Morrison
in Toronto

TrizecHahn, the Canadian real estate group, said yesterday it was selling almost half its stake in Barrick, the gold producer, in a bought deal worth an estimated US\$520m.

Sources involved in the deal said the Barrick shares were snapped up by investors who believed bullion prices had hit bottom and were recovering.

TrizecHahn, the real estate arm of gold baron Peter Munk, who also controls Barrick, previously said it would sell its Barrick stake and use the proceeds for further real estate acquisitions.

TrizecHahn, which owned a total 15.7 per cent stake, said the sale would not affect its remaining Barrick shares, which are pledged as collateral under the terms of the real estate company's exchangeable debentures.

Ross Brennan, TrizecHahn vice-president for investor relations, said the company decided to divest its Barrick holdings in order to replenish cash flow following its acquisition last week of Bell Canada's commercial properties for an estimated C\$750m (US\$523m).

The company has acquired US\$3.1bn worth of North American retail and office property since January 1997.

Investment firms ahead despite Asia

By William Lewis
in New York

Merrill Lynch, the US investment bank, warned yesterday the Asian markets could cause difficulties for the investment banking industry in 1998.

Reporting fourth-quarter earnings for 1997 in line with analysts' expectations, David Komansky, chairman and chief executive, said "the recent events in Asia, and unsettled conditions in US markets, could indicate a more challenging environ-

ment for our industry in 1998".

However, he said Merrill intended "to pursue the strategic opportunities for profitable growth that can be available even in difficult markets". Last year Merrill bought Mercury Asset Management, the UK's leading fund management group, for \$5.2bn. The deal took its assets under management to \$446bn at the year end, up from \$212bn at the end of 1996.

Earnings per common share were \$1.37 basic and

\$1.17 diluted, compared with \$1.23 basic and \$1.14 diluted in the fourth quarter of 1996 and \$1.46 basic and \$1.25 diluted in the third quarter of 1997.

Merrill said its principal transaction revenues were adversely affected by market declines in Asia and other emerging markets and fell by 19 per cent from a year ago to \$603m. However, it said trading declines were partially offset by increased revenues in equity derivatives, foreign exchange and commodities trading. In

early trading Merrill's shares fell more than 5 per cent to \$63.7.

Donaldson Lufkin & Jenrette, the US investment bank majority-owned by AXA-UAP, the French insurance group, reported net earnings per share of \$1.53 fully diluted for the fourth quarter of 1997, marginally above analysts' expectations. This compares with \$1.16 a share in the fourth quarter of 1996 and \$1.85 in the third quarter of 1997. DLJ's share price increased 3¢ to \$66.4.

DLJ is set up an equities research, sales and trading operation in London. It is also expanding its mergers and acquisitions team in Europe, high-yield and private equity operations, and opening offices in Paris, Moscow and Frankfurt.

PaineWebber, the securities house, reported fully diluted earnings per share of 66 cents for the fourth quarter of 1997 compared with 57 cents in the same period a year ago and 70 cents in the third quarter of 1997. In early trading PaineWebber's share price rose 3¢ to \$31.

Stronger dollar cuts into sales at drugs groups

By Richard Waters
in New York

The rise of the US dollar wiped more than 10 per cent from the international sales of both Johnson & Johnson and Pfizer in the final quarter of last year, according to figures published yesterday by the two US healthcare groups.

Pfizer, one of the most consistently successful of the big pharmaceutical companies, added that the dollar was likely to weigh heavily on its performance again this year. Sales for the year would be 3 per cent below 1997 if the dollar remained at its present level, the company said.

In spite of the effects of the currency movements, both notched up double-digit gains in earnings per share in the latest quarter on the back of successful new products.

Both companies were helped in part by lower effective tax rates, which gave a lift to earnings. However, both also reported higher spending on research and development to boost their pipeline of future drugs. At Pfizer, R&D spending for the year rose 14 per cent to

\$1.9bn, while at Johnson & Johnson it increased 12 per cent to \$2.1bn.

At Johnson & Johnson, sales during the final quarter were \$5.6bn, a rise of 2.3 per cent. This represented a slowdown from earlier quarters and left the company with annual sales of \$22.6bn, up 4.7 per cent during the year. Pharmaceuticals were again the engine behind the company's growth during the quarter, with a 5.5 per cent advance in sales after currency effects to \$1.9bn.

At Pfizer, revenues rose to \$3.5bn in the latest quarter and \$12.5bn in the year, both increases of 11 per cent. Some \$163m of sales in the latest period were generated by a new venture with other companies to sell Lipitor, a cholesterol-lowering drug, and Aricept, a treatment for Alzheimer's disease.

Johnson & Johnson lifted net income 7 per cent in the quarter, to \$630m, or 47 cents a share. For the year, earnings increased 14 per cent to \$3.3bn, or \$2.47 a share.

Pfizer's net income rose 11 per cent in the quarter to \$558m, or 43 cents a share, and 15 per cent for the year as a whole to \$2.2bn, or \$1.70 a share.

Costs check Monsanto advance

By Nikki Tait in Chicago

Partly as a result of a sharp rise in new product-related expenditure and partly because of write-offs related to acquired R&D activities, Monsanto, the US pharmaceuticals, biotechnology and agribusiness group, yesterday reported after-tax profits from continuing operations of \$234m, or 48 cents a share.

This compared with earnings in the previous year of \$133m, or 69 cents a share. Sales on the continuing businesses rose from \$6.3bn in 1996, to \$7.5bn last year. But the company said that

if the costs of restructuring the group - it spun off its chemicals arm as a separate listed company last year - and the in-process R&D write-offs were excluded, net profits last year would have amounted to \$49m, or \$1.23 a share. That would have compared with \$67m in 1996, after similar adjustments, or \$1.12 a share.

These adjusted figures, moreover, are struck after the very large increase in "growth-related" spending, incurred as the company pushes for new products in both the genomics and pharmaceuticals fields.

Monsanto said that growth-related expenditures - which encompass both R&D and the marketing and technical services to support this - rose more than 60 per cent, from about \$800m to \$1.3bn.

On an earnings per share basis, that expenditure worked out at about \$1.51 a share - overtaking the underlying \$1.23 a share earned by the group.

Monsanto added that it expected this new product-related spending to rise further in 1998, although it declined to quantify the anticipated scale of this

year's rise: "This investment is targeted for the rapid commercialisation of the more than 60 potential new products in our pipeline," said Robert Shapiro, chief executive.

The company cautioned, however, that the Asian economic downturn could have an impact in 1998. Sales to the region are less than 10 per cent of the total and the area accounts for a smaller proportion of profits. Nevertheless, Monsanto said it was anticipating that the problems "would detract somewhat from earnings in 1998".

CONSOLIDATED INCOME STATEMENT					CONSOLIDATED BALANCE SHEET				
	*Six months ended 31 Dec 1997	*Six months ended 31 Dec 1996	Year ended 30 June 1997		31 Dec 1997	31 Dec 1996	30 June 1997		
Revenue	95	100	312		167	150	167		
Income from investments	41	19	88		2,451	2,190	2,063		
Profit from operations	54	10	11		123	125	124		
Interest received	52	53	163		364	230	333		
Income from fees and other sources	114	91	192		301	165	161		
	350	163	405		366	235	218		
Depreciation and amortisation written off	(43)	(11)	(6)		277	229	214		
Administration, technical and general	91	19	16		1,233	1,213	1,249		
Interest paid	19	16	33		1,687	1,072	1,013		
Exploration and project investigation	33	24	52		2,939	3,307	2,861		
Amounts written off	-	-	(436)		8	11	13		
Profit before tax	213	213	101		225	260	26		
Tax	(12)	(2)	(7)		216	178	30		
Profit after tax	181	210	94		2,384	2,428	2,247		
Minority shareholders' interest	20	20	90		509	2,394	2,177		
Profit attributable to ordinary shares	151	190	(14)		2,316	2,362	1,860		
Includes depreciation charge	11	10	24		8,708	10,721	9,276		
Earnings/(loss) per share - cents	(48)	185	(14)		6,452	8,427	3,368		
Headline earnings per share - cents	107	174	(21)		1,390	1,801	1,022		
Dividends per share - cents	80	80	200		2,024	2,490	2,124		
- absorbing - Rm	81	81	254		1,833	2,316	1,835		
- times covered	1.4	2.1	1.8		74	4	4		
					2,431	2,271	2,000		
					10,972	11,593	11,776		

*Unaudited

NOTES:

1. Dividends

The final dividend of 80 cents per share in respect of the year ended 30 June 1997, amounting to \$1.51 million, was declared on 19 August 1997 and paid on 1 October 1997.

2. Headline Earnings

Headline earnings are stated after the exclusion of the surplus of \$1.41 million on the reduction of the Group's income in December Gold Mining Company Limited ("Goldmin"). The sale of the Goldmin Property Company Limited assets produced a surplus of \$1.11 million which is included in headline earnings. The decrease in headline earnings relative to the headline earnings reported for the six months ended December 1996 is largely attributable to a substantial decline in the dividends received from the Group's gold mining investments.

3. Investments

Major investments made during the six months were: Elanwood Gold Mining Company Limited ("Elanwood") (\$11.1 million), which resulted from the scheme of arrangement between Elanwood and Decentral, Decentral Consolidated Limited (\$8.2 million) and Kismet Gold Mining Company Limited (\$5.1 million). The book value of the Decentral shares sold in exchange for the Elanwood shares was \$7.0 million.

4. Share Capital

A special resolution was passed at the annual general meeting of members of the company on 21 October 1997 (convening 5.21.97) authorising the company to make an unlimited authorised cumulative preference shares of 5 cents each into 5,491,500 authorised but unissued ordinary shares of 5 cents each thereby eliminating the authorised cumulative preference shares capital and increasing the authorised ordinary share capital of the company to 10,250,000 authorised shares (125,000 ordinary shares of 5 cents each).

5. Gold Fields Limited

Gold Fields Limited, previously referred to as Goldmin, has been renamed Gold Fields Limited. All the resolutions required to implement the transactions associated with the formation of Gold Fields Limited were passed by the required majorities at general meetings of shareholders of Gold Fields of South Africa Limited, General Limited and New West Limited and at the scheme meetings of the shareholders of Decentral, Kismet Limited, Kismet Gold Mining Company Limited and Oryx Gold Holdings Limited, all held on 14 January 1998. Accordingly, applications will be made to the High Court of South Africa (Western Cape Division) on 17 January 1998 to sanction the schemes of arrangement. Shareholders will be advised by way of a press announcement on 30 January 1998 of the outcome of the Court's approval.

6. Prospects

Income from recurring sources is likely to be under pressure in the next six months as a result of the weak price currently prevailing. The Group will, however, realise substantial surpluses, net of restructuring and transaction costs, on the sale of the assets necessary for the formation of Gold Fields Limited, and when all the conditions precedent have been fulfilled.

DECLARATION OF INTERIM DIVIDEND

Dividend No. 100 of 80 cents per ordinary share has been declared in South Africa currency, payable to members registered on the books of the company at the close of business on 5 February 1998.

Dividends will be electronically transferred to members' bank or building society accounts by 4 March 1998 at, where this method of payment has not been mandated, dividend warrants will be posted to members on 4 March 1998.

The standard conditions relating to the payment of dividends are obtainable at the share transfer office and the London office of the company.

The register of members will close from 1 to 15 February 1998, inclusive.

75 Fox Street, Johannesburg, 2001

By order of the Board:
J.F. Roper (Chairman)
A.J. Wright (Chief Executive Officer)

COMPANIES AND FINANCE: EUROPE

EUROPEAN NEWS DIGEST

Allianz issues DM2bn bond

Allianz, Germany's largest insurer, yesterday took a first step towards divesting its stake in Deutsche Bank in a DM2bn (\$1.1bn) convertible bond issue. Proceeds from the bond, which is exchangeable into Deutsche Bank shares at a 25 per cent premium to yesterday's closing price, will go towards Allianz's planned acquisition of AGF, the French insurance group.

"This is part of our plan of divesting our non-core assets so we can focus purely on insurance," said Stephan Theisinger, head of corporate finance at Allianz. The German insurer has a stake of between 5 and 10 per cent in Deutsche Bank. Yesterday's offering represents up to half of the Allianz stake in Deutsche Bank should investors convert the bond into shares.

Allianz also plans to raise DM5bn in a series of equity issues and about DM3bn in bond issues to help raise the DM8bn it needs to acquire 51 per cent of AGF. The five-year convertible bond will pay a coupon of 3 per cent. The issuer can call the bond after three years. Allianz said the transaction had no implications for its 10 per cent stake in Dresdner Bank.

Yesterday's deal is the mirror image of a DM968m convertible bond issued by Deutsche Bank last year which investors can convert into shares in Allianz. Deutsche Bank owns a 10 per cent stake in Allianz. The deal was lead managed by SBC Warburg and Dresdner Kleinwort Benson.

INSURANCE

Mapfre in Caja Madrid deal

Mapfre, Spain's leading insurance group, has signed a strategic agreement with Caja Madrid, the Madrid-based savings bank, which will aid its expansion in Latin America where it is already the biggest foreign-owned insurer. The agreement, signed by Mapfre Mutualidad, a member-owned motor insurance specialist which controls Corporación Mapfre, the listed holding company, is the first domestic alliance between an insurer and a financial institution. Caja Madrid, the sixth-ranked financial group in Spain, lacked a strong insurance business to compete with those developed by rivals in association with non-Spanish insurance groups.

Caja Madrid will distribute Mapfre products in Spain and take small stakes in the insurer's Latin American subsidiaries. Mapfre will acquire 20 per cent of the savings bank's insurance arm. The agreement also allows Caja Madrid to acquire an initial 30 per cent of Banco Mapfre, a banking unit with 120 offices controlled by the insurance group, with an option to build up its equity to 51 per cent. Bankinter, the largest of Spain's mid-sized banks, lifted 1997 net attributable profit 5.3 per cent to Ptas18bn (\$116m) - in line with forecasts. Earnings from fee commissions and trading operations, together with lowered provisioning, offset a 1.6 per cent drop to Ptas36.5bn in net interest income.

A strong balance sheet saw a 31.3 per cent increase in its customer deposits and a 27.3 per cent rise in its loan portfolio, reflecting domestic economic growth and rising consumer confidence last year. Bankinter, one of the most highly capitalised banks in Spain, said bad debts represented 0.65 per cent of its total lending and that coverage of non-performing loans stood at 183.2 per cent.

Tom Burns, Madrid

SWEDEN

Esselte pictures frame sale

Esselte, the Swedish office and labelling products group undergoing a strategic revamp, said yesterday it expected to sell its picture framing business by mid-year. Jan Kvarnström, chief executive, said seven companies had expressed interest in its US-based Nielsen & Bainbridge subsidiary.

Nielsen & Bainbridge had operating profits of SKr158m (\$18.7m) last year on sales of SKr1.4bn. Blackstone, the US investment institution, is advising on the sale. Esselte, which yesterday reported a drop in full-year pre-tax profits from SKr429m to SKr222m, recently split its operations into three companies, citing a lack of synergies. The group said it also planned to spin off its labelling products business.

Esselte said 1997 profits had been held back by a SKr252m rationalisation and restructuring charge. Mr Kvarnström, who took over at Esselte in September, has shaken up the group's office products division - its biggest unit - by scrapping its regional structure. Operating profits in office products declined from SKr462m to SKr242m on sales up from SKr7.6bn to SKr8.7bn. Excluding exceptional items, earnings were SKr406m.

Craig McIner, Stockholm

SBC/UBS MERGER

Latest job round favours SBC

Executives of SBC Warburg Dillon Read got the lion's share of the latest round of appointments at the combined investment banking subsidiary to be created by Swiss Bank Corporation's merger with Union Bank of Switzerland. SBC staff gained about three-quarters of the 80 jobs announced yesterday. Another 20 at the same managing director level have yet to be filled. The banks hope to complete the list by mid-February. The merger is expected to cost 6,000 investment banking jobs, more than half in London.

Appointments included Robert Gillespie (SBC) and Malcolm Le May (UBS), co-heads of European corporate finance; John Costas (UBS) and Stephen Cristaglio (SBC), co-heads of fixed income; Rory Tapner (SBC), head of equity capital markets; Alan Hodson (SBC), global head of equity distribution; and T.J. Lim (UBS), head of rate derivatives and structured products.

Clay Harris, Banking Correspondent

AIRCRAFT

Snecma forecasts return to profit

Snecma, the French aircraft engine group, said yesterday it would report a net profit of "slightly more than" FF600m (\$81.3m) for 1997, compared with a loss of FF280m a year earlier. Sales rose 23 per cent to FF2.23bn. Jean Paul Bechet, chairman, described 1997 as a "good year" in which the company exceeded its targets. He said 1998 sales should rise by more than 20 per cent to FF2.8bn, and that the company expected earnings to rise.

AFP News, Paris

CHEMICALS

Degussa, H&L in merger talks

Merger talks between Degussa, the German chemicals, metals and healthcare company, and H&L, the chemical subsidiary of Veba, will start next month, Uwe-Ernst Bufe, Degussa chairman, said yesterday. His comments follow Veba's acquisition last year of 35.4 per cent of Degussa.

Veba, an energy and industrial group, has made clear that it wants to combine the two operations. Mr Bufe said Degussa was "open" about a merger with H&L. However, Veba had agreed that Degussa should remain a quoted company. "We are confident that a further strengthened Degussa will be created," he said. Degussa said pre-tax profits in the first quarter of this year jumped 26 per cent to DM1.45m (\$78.9m), with sales up 15 per cent to DM4.6m. Mr Bufe repeated the company's forecast that profits would rise this year, although he said this would depend on the financial crisis in Asia being contained.

Andrew Fisher, Frankfurt

Aircraft prices down a fifth, says Dasa

By Graham Bowley in Munich

Fierce competition between aerospace producers has cut world aircraft prices by a fifth over the last two years. Daimler-Benz Aerospace of Germany said yesterday.

The admission, by one of the four partners in Europe's Airbus civil aircraft consortium, is the most precise estimate yet by a leading manufacturer of how cut-throat rivalry in the industry is eroding prices.

It is evidence that producers are sacrificing profits as they battle for share in world markets. Dasa cited Boeing, the US manufacturer which is Airbus's arch-rival, as the chief culprit.

Manfred Bischoff, Dasa chief executive, said: "There is a crumbling of prices in certain markets. The prices are dictated by Boeing. We are followers in this case."

He also warned that the crisis in Asian economies would have a damaging effect on aircraft sales.

Mr Bischoff delivered the warnings as he revealed that the Munich-based company had achieved record orders and sales last year.

He said the strong dollar, an upswing in aircraft demand and cost-cutting measures had produced a result "beyond all expectations".

All Dasa's six business units - including satellite and defence interests as well



Manfred Bischoff: 'The prices are dictated by Boeing. We are followers in this case'

as military and civil aircraft - had returned to profit. Sales rose 20 per cent to DM15.3bn (\$8.3bn), and orders by 14 per cent to DM19.1bn.

But Mr Bischoff cautioned the decline in prices would hit profits and the company in 1998 would not repeat this year's strong performance, which he described as a

"firework display". "This fall in prices in all the major markets means that profits cannot be increased in line with revenues and in line with the

recovery in the value of the dollar," Mr Bischoff said.

He conceded that Dasa had failed to meet the 12 per cent target for return on capital required by its parent, although he said it was expected to meet the target this year.

Mr Bischoff, who is due this year to become the chairman of the Airbus supervisory board, said Airbus was on course to become a limited company by the start of next year.

At present Airbus - owned by Dasa, Aerospatiale of France, British Aerospace and Casa of Spain - is a French legal entity that does not publish accounts or make profits or losses in its own right.

GM comments 'sour' Opel five-year job deal

By Andrew Fisher in Frankfurt

Adam Opel, the German subsidiary of General Motors of the US, yesterday announced a package of investments, job cuts and wage curbs to improve efficiency and hold down cost growth over the next five years.

But employee representatives said the 10-month negotiations had been soured by comments from GM executives on the need for job

reductions of up to 30 per cent in Europe.

Opel's European works council had demanded an explanation, said Rudolf Müller, head of the German council.

Under the new job security agreement, Opel has promised there will be no compulsory redundancies up to the end of 2002. However, it said it expected a reduction of up to 4,000 jobs at its main Rüsselsheim plant near Frank-

furt, which employs nearly 25,000.

This would be achieved by voluntary means, such as early retirement, non-replacement of workers who leave, and greater working flexibility.

Opel employs nearly 47,000, with a reduction of about 1,200 planned for 1998, mainly in Rüsselsheim.

The company has also pledged to invest at least DM750m (\$406m) over four years to modernise the Rüsselsheim plant. Production will

be held at 275,000 vehicles a year. A further DM450m is envisaged for a new engine plant at Kaiserslautern.

On the labour side, the agreement states that employees will forgo 1.25 percentage points of agreed annual wage increases, thus halving the 2.5 per cent rise agreed for this year.

David Herman, chairman, said the package would strengthen Opel's competitiveness. Fewer people were now needed to build

cars as a result of new vehicle designs and advances in technology and productivity.

Mr Müller called the agreement a compromise with which all sides could live - "not a victory [for the works council], but also not a defeat".

He spoke in support of Mr Herman, now in the second year of a second five-year contract, in spite of widespread speculation that he will be replaced this year.

<p>December 1997</p> <p>ENERGIS</p> <p>US\$440,000,000 Initial Public Offering</p> <p>Co-Lead Manager</p>	<p>October 1997</p> <p>France Telecom</p> <p>US\$6,800,000,000 Initial Public Offering</p> <p>Co-Lead Manager</p>	<p>October 1997</p> <p>InterAmCom Inter-American Communications</p> <p>US\$150,000,000 Debt Offering</p> <p>Lead Manager</p>	<p>October 1997</p> <p>China Telecom</p> <p>US\$4,000,000,000 Initial Public Offering</p> <p>Co-Lead Manager</p>
<p>October 1997</p> <p>PORTUGAL TELECOM</p> <p>US\$1,557,000,000 Secondary Offering</p> <p>Joint Global Co-ordinator</p>	<p>October 1997</p> <p>TELECOM ITALIA</p> <p>US\$10,900,000,000 Secondary Offering</p> <p>Joint Lead Manager</p>	<p>August 1997</p> <p>Hermes Europe Railtel</p> <p>US\$265,000,000 Debt Offering</p> <p>Co-Lead Manager</p>	<p>July 1997</p> <p>SIEMENS</p> <p>Sale of German CATV assets to EWT Group</p> <p>Sole Financial Adviser</p>
<p>July 1997</p> <p>Telefónica</p> <p>US\$600,000,000 Exchangeable Bond</p> <p>Joint Lead Manager</p>	<p>July 1997</p> <p>GTS</p> <p>US\$135,000,000 Senior Subordinated Convertible Bond</p> <p>Global Co-ordinator</p>	<p>June 1997</p> <p>STET OTE</p> <p>US\$919,000,000 Acquisition of 49% stake in Telekom Srbija</p> <p>Sole Financial Adviser to STET</p>	<p>May 1997</p> <p>Gemeente Den Haag</p> <p>US\$190,000,000 Sale of The Hague's cable network to Casema</p> <p>Sole Financial Adviser</p>
<p>May 1997</p> <p>Newtelco</p> <p>Sale of 49% stake to BT/Tele Danmark</p> <p>Sole Financial Adviser</p>	<p>April 1997</p> <p>CANAL+</p> <p>US\$2,200,000,000 Acquisition of NetHold</p> <p>Financial Adviser</p>	<p>April 1997</p> <p>mobilkom AUSTRIA</p> <p>US\$700,000,000 Sale of 25% stake to STET International</p> <p>Sole Financial Adviser</p>	<p>February 1997</p> <p>Telefónica</p> <p>US\$4,400,000,000 Secondary Offering</p> <p>Joint Lead Manager</p>

Global leadership in telecoms investment banking.

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COMPANIES AND FINANCE: ASIA-PACIFIC

Toshiba cuts profit forecast to Y10bn

By Michio Nakamoto in Tokyo

Toshiba, one of Japan's leading electronics companies, warned yesterday that group pre-tax profits would plunge to Y10bn (\$77.6m), compared with its previous forecast of Y95bn. It blamed poor sales of personal computers in the US coupled with weak demand for many of its mainline products in Japan and the sharp decline in semiconductor memory prices.

The latest forecast, which compares with consolidated pre-tax profits of Y125.5bn in the year to

last March, highlights the severity of the downturn in the company's markets.

Toshiba's forecast was worse than most analysts had expected. "They don't match NEC in terms of semiconductor profitability, while consumer electronics is not their core business," said Scott Foster, industry analyst at ING Barings. He said the key to Toshiba's rebound depended on whether a recent rise in semiconductor prices was sustainable.

Group sales are expected to fall 2 per cent to Y5,350bn, compared

with an earlier forecast of Y5,500bn and sales last year of Y6,453.4bn.

Net profits are expected to fall to Y10bn from an earlier forecast of Y60bn, against Y67.1bn last year.

Toshiba expects to make a loss in its PC business. It pointed to severe pressure in the US computer market, where its top-end desktop PCs had failed to make inroads, and a sharp fall in PC demand in Japan. Sales are forecast at Y700bn, against Y740bn last year.

Toshiba's desktop PCs, which have multimedia functions and a DVD-Rom drive, have struggled to

compete with the low-cost PCs that have captured market share in the US. "Our high-end products did not match market needs," Toshiba said.

Toshiba denied it was pulling out of the home market for desktop PCs, but said it would concentrate more on the business market.

In the notebook market, the company has suffered from price declines triggered by falling prices of liquid crystal display panels and memory chips.

The sharp falls in semiconductor memory prices are also putting

pressure on profits. Sales of semi-conductors are expected to reach Y900bn, rather than the Y825bn forecast earlier. However, Toshiba expects to make a profit in semi-conductors on the strength of its non-memory products.

Toshiba also faced a difficult environment in consumer electronics markets, particularly in Japan, where demand for large-ticket items has been hurt by a rise in the consumption tax. It expects an operating loss of Y30bn in the division, compared with a Y17bn loss last year.

HK telecoms joins the modern era

End of Hongkong Telecom's monopoly brings competition and new technology

The end of the United Kingdom's last significant monopoly in Hong Kong catapults the territory's telecommunications sector into the ranks of the developed world.

With the phased removal of the direct-dial international telecoms monopoly - now held by Hongkong Telecom, which is controlled by Cable and Wireless of the UK - Hong Kong is seeking to guarantee its position as Asia's leading telecoms hub and to run the industry in line with the worldwide trend of liberalisation.

This, analysts say, is good for most consumers as competition should translate into cheaper bills. It is also seen as good for Hong Kong, whose role in Asian telecoms will be enhanced by the reduced rates.

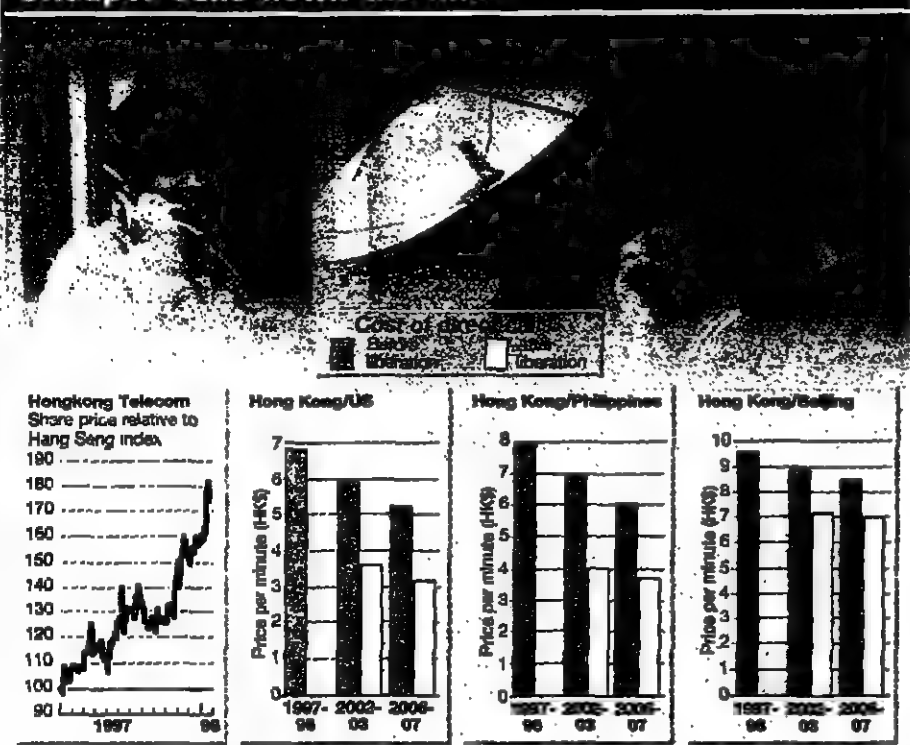
But there is less consensus on whether or not the deal is good for Hongkong Telecom, erstwhile monopoly and still the dominant operator in both the domestic and international markets.

On the positive side, Hongkong Telecom receives a compensation package valued at about US\$1.1bn, including HK\$8.7bn (US\$866m) in cash; it has advance knowledge of how the deregulation of the industry will pan out; and it has certain pricing constraints lifted. It also has a nine-month grace period in which to restructure itself for the onslaught of competition.

At the same time, however, it sees a reduction in delivery fee payments and faces an unprecedented wave of competition in a core activity which generates an estimated 60 per cent return on investors' capital. "Competitors will flood the market," says Ni Q. Lai, regional telecoms analyst at Credit Suisse First Boston in Hong Kong.

Deregulation is rapid. The

Cheaper calls down the line



monopoly ends, in practice if not in name, from the beginning of next year, when international simple resale (ISR) of voice traffic is introduced. With ISR, an international operator can lease international circuits and resell capacity to end-users. It requires minimal equipment or capital expenditure.

The US experience shows ISR to be hugely popular; it is also ISR which has allowed Swiftcast to continue undercutting British Telecom's communications, in spite of the latter's attempts to reduce its international charges.

According to Adam Quinton, regional telecoms analyst with Merrill Lynch in Singapore, this is because the economics are so appealing. "The explosion of US resale [currently most preva-

lent on the Mexico, Canada and UK routes] is just another manifestation of industry liberalisation unleashing new forces to attack the high returns still available in the international telephony market," he says.

For Hongkong Telecom, the hit will come on revenues. The switch to ISR will mean it takes a smaller slice of revenues on calls generated by competitors.

ISR bypasses the accounting rate system - whereby carriers pay each other for completing international calls - which was a subject of dissent. The US Federal Communications Commission was proposing to slash the rate paid to Hong Kong and other Asian carriers; under the newly liberalised scenario, it will

disappear altogether.

Nonetheless, Hongkong Telecom retains certain advantages. "It puts it on a more level playing field against the competition, and with its size Hongkong Telecom is well placed to exploit that," says David Gibbons, telecoms analyst at HSBC James Capel in Hong Kong.

He adds that Hongkong Telecom is better prepared for competition. Its market share of international traffic has been steadily eroded by callback operators, whose mechanism of routing the call via a computer which then bounces it back as an incoming (rather than outgoing) call exploits a loophole in the IDD monopoly.

Callback services are offered by the competing

fixed-line operators as well as several smaller dedicated companies such as CITI. Mr Gibbons estimates that Hongkong Telecom's international market share is now about 70 to 75 per cent.

Moreover, the Hong Kong government had already liberalised ISR for fax and data, which make up about one-fifth of total traffic. "It is moving from partial competition to full competition, so the transition will be rather less marked," he says.

A bigger blow could be dealt to the three fixed-line competitors - Hutchison Telecom, Wharf New T&T, and New World Telephone. They are vulnerable to attack on both sides: from new competitors who are likely to be targeting the same customer base, and a more competitive Hongkong Telecom freed of several of its price controls.

Mr Quinton points to the UK example: Mercury suffered very badly when the market was first liberalised, while the dominant BT held off the pain for a few years.

"Since any price-sensitive customer has already migrated to a new service, a more attractive price could persuade these customers to hop again to other operators."

For Hongkong Telecom, the balance of compensation for lost opportunity is almost academic. The pace of liberalisation has been unrelenting in telecoms, and after Singapore agreed to open up Hong Kong had little alternative but to follow suit.

"Clearly, monopolies are going out of fashion like milk cows," says Mr Gibbons. "Cashing in the value of that business and re-deploying it elsewhere is a good move."

Louise Lucas

Lex, Page 18

Kia looks at link-up with GM

By John Burton in Seoul

Kia Motors, the South Korean carmaker, is considering an alliance with General Motors of the US in manufacturing car components, Park Je-hyun, president, said.

GM has offered to provide capital and technology to several of Kia's car component subsidiaries, including Kia Precision Works and Kia Heavy Industries.

Jack Smith, GM chairman, said last month that the US carmaker was studying the possibility of strengthening its car components business in Korea by taking stakes in local companies.

GM has a components joint venture with Daewoo, Korea's second largest carmaker, and apparently intends to become a key parts supplier for the Korean car industry following the recent bankruptcy of Mando Machinery, the biggest domestic supplier.

Kia, which was nationalised in October after going bankrupt, has said it has kept Ford Motor, its largest foreign shareholder, informed of its talks with GM.

Kia is also hoping to strengthen marketing ties with Ford, which holds a 16 per cent stake in Kia, through the overseas sales of Kia vehicles through Ford's distribution network.

Meanwhile, the trade and industry ministry said US and Japanese companies had expressed interest in acquiring Kia Steel, which supplies speciality steel products to the car industry.

Hyundai and Daewoo, Korea's two largest carmakers, have also offered to co-manage Kia Steel in an alliance with the parent Kia group.

ASIA-PACIFIC NEWS DIGEST

United Distillers in whisky switch

United Distillers, the spirits arm of the former Guinness group, is to pull out of marketing its Johnny Walker and Old Parr brands of whisky in Japan, as ripples from last year's merger of GrandMet and Guinness to form Diageo spread to Japan.

Handling of the brands will be transferred to Jardine Wines and Spirits, a joint venture in which United Distillers and Moët Hennessy, part-owned by Guinness, both have stakes, together with Jardine Matheson, the Hong Kong-based trading company. United Distillers will close its Japan subsidiary next month, with the loss of 170 jobs, but will ask Jardine Wines and Spirits to take on all its former employees.

The Johnny Walker brand has been suffering from decreasing prestige in Japan as whisky prices have tumbled over the past decade, and parallel imports have hit sales from official distributors.

But there are hopes that the whisky market could pick up this year as a result of a tax cut last October, forced through by the World Trade Organisation to bring Japan's duty on whisky closer to that levied on shochu, a locally produced strong spirit. Further reductions in the whisky tax are planned.

Bethan Hutton, Tokyo

THAILAND

PTTEP reserves hit 99m barrels

PTT Exploration & Production, Thailand's only listed oil and gas producer, said yesterday that its total proven hydrocarbon reserves had risen to 99m barrels of oil equivalent (boe), up 20 per cent from the end of 1996. The company said probable and possible reserves were 660m boe, up 51 per cent.

The share price of PTTEP, a core holding of many foreign investors in the Thai stock market, rose 1.3 per cent to close at Bt466. The company's annual reserves announcement is considered crucial in determining the value of the company.

The Thai government, via the Petroleum Authority of Thailand, expects later this year to sell additional stakes of PTTEP either on the stock market or through a private placement as part of a privatisation programme agreed with the International Monetary Fund.

The company said the rise in proven reserves was mainly the result of new appraisals of wells north of the country's main offshore gas producing areas - Palim and Moragot - and new reserves added when the company farmed-in on Burma's offshore Yetagun field.

Ted Bardacke, Bangkok

TRAVEL

Japan Airlines cuts HK flights

Japan Airlines, the country's largest carrier, is to make sharp cuts in the number of flights between Japan and Hong Kong in response to steep falls in passenger numbers on the routes.

Tokyo-Hong Kong flights will be reduced from four to three a day from April, reducing total Japan-Hong Kong flights to 49 from 56 a week. Flights to the US and Europe will increase, with a new Nagoya-Los Angeles service three times a week.

Paul Smith, transport analyst at HSBC James Capel Securities in Tokyo, said that cuts in the Hong Kong services were not unexpected. Japanese tourism to Hong Kong has fallen off dramatically since the July 1997 hand-over to China. Other Asian destinations are attracting more business, and JAL plans to add more flights to mainland China, although these are not yet fixed.

JAL's flights to the US are set to increase by eight a week, but competition on the routes is likely to grow as a result of a US-Japan aviation accord, due to be agreed this week.

Bethan Hutton

RETAILING

Woolworths wins Country Road

Woolworths Holdings, the South African retailer, said yesterday it had secured a controlling stake in Country Road, the Australian clothing retailer, two days before the deadline for shareholders to accept its A\$180m (US\$92m) takeover offer. The bid had been rejected earlier by many investors, with the share price trading up to \$2.30 before closing at the offer price of \$2 on Tuesday. In a hard-fought takeover attempt, Woolworths succeeded on Tuesday in raising its stake to 59 per cent, gaining a 20 per cent stake in 24 hours.

Leading shareholders, including Australian Retail Investments and Portfolio Partners, have opposed the bid and earlier tried to build a blocking stake, saying Woolworths' offer was too low. Syd Muller, Woolworths executive chairman, said yesterday that his company had been inundated with acceptances of the bid, which valued Country Road at \$138.11m. "Shareholders have concluded that our offer is attractive and provides the opportunity to sell at a premium price... this is despite all the negative posturing of some parties," he said. Woolworths has said it would move to delist Country Road if it acquired 50.1 per cent of the company.

Gwen Robinson, Sydney

We are pleased to announce the election of the following officers

Howard Conroy
Cary J. Davis
Kenneth H. Kranz
Nicholas J. Lowcock
John W. MacIntosh
Eve I. Morton
Frederick Stolar
Vice President

Julio R. Ortiz
Assistant Vice President
E. M. WARBURG, PINCUS & CO., LLC

Frank M. Brochin
Vice President
WARBURG, PINCUS VENTURES, LLC

Roberto Italia
Vice President
E. M. WARBURG, PINCUS & CO.
INTERNATIONAL, LTD.

E.M. WARBURG, PINCUS & CO., LLC

NEW YORK LONDON HONG KONG

January 1998

Mitsubishi Electric eyes phones

Mitsubishi Electric aims to become the first electronics company to enter Japan's international telephone market by leasing lines from KDD, the leading international carrier, writes Michio Nakamoto in Tokyo.

Mitsubishi said its 100 per cent-owned subsidiary Mitsubishi Electric Information Network (Mind) planned to enter the international simple resale business next month.

Mind expects to offer inter-

national call services at about half the rates charged by KDD by leasing lines from KDD and connecting them to the public network.

This would be the first time in Japan that a company which is not a telecoms carrier offered international telecoms services to the public, according to the Ministry of Posts and Telecommunications. Late last year, the MPT announced the deregulation of international simple resale.

Mind will target mainly the business market but will also make its services available to residential users. The company, which already provides telecoms facilities such as internet and intranet services, expects sales to rise strongly this year to Y27bn (\$209m) from Y19.7bn.

The liberalisation of international simple resale is expected to inject greater competition into the Japanese market, where international rates remain high.

CARIPLO
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US\$ 150,000,000

Floating Rate Depositary Receipts due 1999

In accordance with the Terms and Conditions of the Receipts, notice is hereby given that for the Interest Period from January 21, 1998 to July 21, 1998 the Receipts will carry an Interest Rate of 5.90625% per annum.

The Interest Amount payable on the relevant Interest Payment Date, July 21, 1998 will be US\$ 236.95 per US\$ 10,000 principal amount of Receipt and US\$ 7,423.93 per US\$ 250,000 principal amount of Receipt.

The Agent Bank
KBL Kreditbank
Luxembourg

LEGAL NOTICE

IN THE HIGH COURT OF JUSTICE

CHANCERY DIVISION

COMPANIES COURT

IN RE THE MATTER OF

SHEPHERD UNITED PLC

AND IN THE MATTER OF THE

COMPANIES ACT 1985

NOTICE IS HEREBY GIVEN that the Order of the High Court, Chancery Division dated 14th January 1998, requiring the submission of the report of the audit of the accounts of the company for the year ended 31st December 1997, has been complied with.

The report of the audit of the accounts of the company for the year ended 31st December 1997, is available for inspection at the offices of the company's auditors, Messrs. PricewaterhouseCoopers, 15th Floor, 15 Abchurch Lane, London EC4N 3DF, from 10.00 am to 5.00 pm on 21st January 1998.

Dated 21st January 1998.

DWM LUTHERIDGE

15th Floor, 15 Abchurch Lane, London EC4N 3DF

Tel: 01753 70788

Ref: C/97/0078

Solicitors for the above-named company

Kommuninvest

ISverige AB

US\$ 100,000,000

Guaranteed

Floating Rate Notes

due 1998

For the Interest Period 20th

January, 1998 to 20th April, 1998

the Notes will carry a Rate of

Interest of 5.0125% per annum,

the Interest Amount payable per

US\$ 55,000,000 Note will be US\$

\$72.66 and for the US\$ 100,000,000

Note will be US\$ 145.32, payable on 20th April, 1998.

Lent on the Luxembourg Stock Exchange.

Boulevard de la Liberté

Company, Luxembourg Agent Bank

MANUTAN

RESULTS FOR 1996/1997

The Supervisory Board, chaired by Mr André P. GUICHARD, met on 19 January 1998 and reviewed the management report and accounts for the year ended 30 September 1997 as presented by the Management Board, chaired by Mr Jean-Pierre Guichard.

Consolidated turnover of FRF 1,873 million is 6.2% higher than the previous year (compared to a forecast 5% growth).

The first half of the year now ended showed only modest growth of 3%. The second half however saw sustained growth (+10%) which included strong performances from France, Scandinavia and the Benelux countries.

The only shadow was Germany which suffered further slippage in order intake from the former East German States which was not offset by the rest of Germany.

Group net profit, after amortisation of goodwill was FRF 94.6 million (5.1% of turnover), a modest decline compared to the previous year (FRF 98 million, equal to 5.6% of turnover).

Developments

Agreement has been reached with ALCATEL BS whereby our subsidiary,

M.PRUD'HOMME S.A. (MPSA) will acquire the mail order activities covering equipment, accessories and consumables for the private telecommunications markets (standard and cordless phones, GSM, fax and answering machines), distributed via the "ALCATEL Diffusion" catalogue.

Even though the scale of this transaction is not significant in the context of group turnover, it is important to MPSA as it will make a major contribution to the recovery in growth for this business and provide additional expertise in a market that is expanding rapidly.

Prospects for 1997/1998

Turnover should reach the FRF 2 billion mark during 1997/1998, an increase of 7% as evidenced by the promising first quarter results: group sales were FRF 563 million (+13% increase) and Manutan S.A. sales were FRF 236 million (an 18% increase).

At the next Annual General Meeting, it will be proposed to increase the distribution to 25% of group net profit after amortisation of goodwill. This will provide a dividend of FRF 4.80 per share inclusive of tax credit the same as a year earlier.

MANUTAN: A COMPLETE SERVICE TO BUSINESS, BY CATALOGUE
GENERAL EQUIPMENT - HANDLING - LIFTING - STORAGE - OFFICE - WORKSHOP

Brierley sal
Coles Myer

Gwen Robinson

THE COLES MYER GROUP has announced that it will acquire Brierley's, a major Australian department store chain, for \$1.2 billion.

The acquisition will create a new entity, Brierley's Coles Myer, which will have a combined turnover of \$1.2 billion.

The deal is expected to be completed by the end of the year.

Brierley's is a major Australian department store chain, with 12 stores across the country.

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Wave of mergers sweeps Indonesia

By Sander Theoness
in Jakarta

Indonesia's banks and conglomerates announced a wave of merger and acquisition plans yesterday as part of their struggle to survive a looming debt crisis and liquidity squeeze.

Bank Danamon, the second largest listed bank which has denied rumours of impending collapse, said it was finalising talks on a merger with a number of small banks but would not disclose details, although some bankers involved said Lippo Bank could be one of its partners.

Dharma and Putra Surya Perkasa, the finance and property groups, intend to merge their property subsidiaries which were badly exposed to short-term off-shore borrowing when the rupiah crashed.

Scotiabank of Canada plans to raise its stake in Bank Arya, a small retail bank, from 35 per cent to 49 per cent. LG Electronics of South Korea has bought out Astra Electronics, part of the Astra group, from a local joint venture.

The merger and acquisition plans are the first evidence that banks and companies are restructuring to stave off collapse. News of more mergers in the making attracted buyers for bank shares on the Jakarta Stock Exchange yesterday, pushing the index up 2 per cent.

Most of Indonesia's 225 banks and many conglomerates have been pushed to the brink of bankruptcy by a liquidity squeeze and a collapse of the rupiah. The exchange rate has dropped from Rp2,600 to the dollar in August to Rp10,575 yesterday, swelling off-shore debt and triggering fears among investors of massive defaults.

Private off-shore debts exceed \$66bn, in addition to at least \$15bn in commercial paper, and estimates of loans due this year range from \$30bn to \$80bn. Lenders have remained quiet on forced roll-overs on loans to many large conglomerates but some have mentioned Steady Safe, Sekar Bumi and Sierad Produce as defaulting on short-term debt.

Some banks have offered rupiah payments for dollar

debt, indicating growing desperation.

The government has urged enterprises and banks to merge or attract foreign investors to raise cash. Company owners had been slow to respond until recently, hoping the rupiah would recover, but even last week's reform pledge to the International Monetary Fund failed to revive the currency.

On Monday, two of Indonesia's largest banks, Bank Internasional Indonesia and Bank Dagan Negara Indonesia, said that they intended to merge along with three small banks affiliated with BDN, Bakrie group and Tirtamas group have also merged subsidiary banks.

BDN, although only slightly smaller than BII, will lose its name in the merger, an indication of its weak position. BDN is part of the Gajah Tunggal group which has been heavily hit by the rupiah depreciation, but Sinar Mas group, owner of BII, also faces large debt payments because of rapid expansion in its pulp and paper industries.

Both groups have declined to reveal financial data.

Gdynia takes Polish shipyard lead

By Christopher Bobinski
in Warsaw

Gdynia shipyard, which showed a profit last year for the first time since 1990, is emerging as the sector leader in Poland after a long struggle to stay independent of Szczecin, its chief domestic rival.

Last year's \$7m net profit on the sale of nine vessels worth \$300m has bolstered morale among the yard's more than 7,000 employees and prompted Gdynia to make an ambitious bid for the assets of the nearby Gdansk yard, which is in liquidation.

At the same time, Szczecin, which has sought to take control of Gdynia, risks becoming isolated if its merger plan, backed by the European Bank for Reconstruction and Development, fails to come to fruition.

Szczecin also reported a \$7m net profit last year on sales of 22 vessels worth \$57m. Gdynia, which plans to build 12 vessels this year, expects \$410m in sales revenue and about \$10m in net profits. It is currently 34 per cent state-owned, while suppliers hold 12 per cent following a debt-for-equity deal.

Two Polish banks, Bank Handlowy and the PBKS, part of the Pekao SA group,



A worker at the troubled Gdansk shipyard; nearby Gdynia has made a bid for its assets

Photo: Maleska

hold a further 39.4 per cent and the workforce is entitled to 15 per cent. The yard's management and employees are negotiating to buy the banks' stake in a deal which should be completed by the end of next month.

According to Janusz

Szlanta, chief executive of Gdynia, the return to profitability gives the yard a breathing space to consider its next move.

This could include the immediate sale of stock to a strategic investor or a Warsaw bourse listing, which

could coincide with a partial trade sale. The Gdynia bid for Gdansk is designed to give Mr Szlanta additional capacity to develop his yard, and the tender is expected to be decided by the liquidators by the end of April.

National Mutual and Lend Lease detail link-up

By Gwen Robinson
in Sydney

National Mutual Holdings and Lend Lease, two of Australia's largest insurance and funds management groups, yesterday announced details of a plan to merge their core operations in Australia and New Zealand, possibly by the end of March.

The new entity, National Mutual/MLC, would be one of the region's largest financial services groups, with a combined A\$51bn (US\$34bn) of funds under management.

The deal has been under discussion since last October, but its timing, following the previous day's announcement of a restructuring by AMP, Australia's largest insurance and fund management group, highlighted intensifying competition in the Australian financial services market.

Executives from National Mutual and Lend Lease said their proposed merger was partly a response to the globalisation of the financial services industry. "We cannot over-estimate the strategic importance of the proposed merger," said Dean Wills, chairman of National Mutual, who will be chairman of the new entity.

Lend Lease has extensive interests in property development and management, while National Mutual is a leading fund management and insurance company. By combining their businesses, they said they would achieve

recurring cost savings of at least A\$200m annually, which could add A\$900m to shareholder value.

Under a non-binding preliminary agreement, the merged entity would be 51 per cent owned by National Mutual and 49 per cent by Lend Lease. National Mutual would pay Lend Lease A\$180m as an adjustment fee for its larger equity stake, while Lend Lease would purchase National Mutual's property management operations for A\$63m.

The group would form two joint ventures operating in both Australia and New Zealand, to be run as a single entity under National Mutual/MLC. The first would combine existing life assurance, pensions and related businesses, while the second would include the investment management operations of Lend Lease and National Mutual in both countries.

Both companies would have five representatives on the board of each joint venture and have equal voting rights for the first three years. National Mutual, however, would have the right to appoint the chairman. David Clarke, chief executive of MLC, would head the merged entity and for the first three years have voting rights as an 11th board member.

The deal excludes National Mutual's 69-per cent subsidiary National Mutual Asia, which has been expanding in south-east Asia.

Brierley sale hits Coles Myer stock

By Gwen Robinson

Shares in Coles Myer tumbled nearly 7 per cent yesterday on news that Brierley Investments, the New Zealand-based investor, had sold its entire 7 per cent stake in the Australian retailer for about A\$595m.

Brierley took advantage on Monday of the recent surge in the troubled group's share price to record highs, realising a profit of \$319m on the sale.

The deal, conducted late on Monday through Australian brokers JB Warr & Son, involved at least 30m Coles Myers shares at \$7.30 each, a discount of 64 cents to the market closing price of \$7.94.

About 62m shares were widely distributed to local and overseas institutions after the market's close on Monday. Other investors yesterday appeared to be following Brierley's lead, as the stock fell 58 cents to finish at \$7.41 on high turnover of 13.7m shares.

Analysts said Brierley's exit was not a negative factor for Coles Myer, as the retailer's earnings outlook was better than it had been for years. However, the market would take some time to absorb the stock.

Market observers suggested that Brierley, a large investor in Australian blue chips, would channel the proceeds into other investments, including a possible addition to its existing 22.9 per cent stake in Australian newspaper publisher, John Fairfax.

Don Conway, Brierley's Australian general manager, said the company was "very pleased" with its profit from the sale and had decided to sell because "it was time to move on to the next investment".

Brierley, which also owns Thistle Hotels group in the UK, bought the Coles Myers shares from late 1995 through 1996 for an average price of \$4.50 each, paying a total of about \$360m.

Brierley began amassing its stake in Coles Myer as investors raised questions about the company's corporate governance standards and a complex set of share deals said to have cost the retailer A\$18m.

Large institutional shareholders, including AMP Society and British Telecommunications, began reducing their stakes and finally left the share register after the main shareholder and deputy chairman, Solomon Lew, refused to leave the board.

All of these securities having been sold, this advertisement appears as a matter of record only.

\$1,688,212,350



Safeway Inc.

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Common Stock
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2,825,460 Shares

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COMPANIES AND FINANCE: UK

Japanese bank hopes for about £200m for group after removal of bad loan provisions
Yokohama to sell Guinness Mahon

By Jane Martinson

Guinness Mahon, the London-based investment banking group, has been put up for sale by the Bank of Yokohama, a leading Japanese regional bank, after a decision to streamline its international operations.

The bank hopes to sell Guinness Mahon, which combines an investment banking business with a private banking operation and

fund management division, as a whole. This should be made easier by the removal of bad loan provisions which have dogged Guinness Mahon in recent years.

The bank's ownership of Guinness Mahon has not been a particularly successful one as the problem loans, mainly taken on board in the 1980s, have led to losses for most of the 1990s.

The bank's initial investment of £55m in 1989 grew to

almost £200m after a rights issue and other share purchases. The group now hopes the sale of Guinness Mahon, with profitmaking individual parts, will make nearly £200m (£326m). The initial investment was made as many financial institutions were expanding globally. The bank is understood to have decided to sell Guinness Mahon before the recent market turmoil in Asia.

It has also decided to reduce other international operations and "unnecessary" cross-shareholdings in other Japanese companies, in an attempt to position itself firmly in the domestic market before "big bang" in the country's financial services sector.

David Potter, Guinness Mahon chairman, said the group had already been approached by potential bidders. "Over the last couple of

years we have had numerous approaches." This interest had increased recently.

Using a rationale similar to that of Barclays when it announced the sale of BZW, its investment banking arm, Mr Potter said it was concerned about keeping bid talks confidential. Both sides would like to see a sale "sooner rather than later". An adviser to the deal said that he hoped the sale could be completed within the next

two months.

Guinness Mahon, which owns the Henderson Crosthwaite stockbroker, employs some 572 people in the UK. It advises more than 75 publicly-quoted clients and completed £282m of mergers last year and £363m of equity capital raisings.

It owns 44 per cent of Guinness Flight Hamro asset management, which manages £9.3bn of institutional and retail assets.

Somerfield sales lag sector

By Peggy Hollinger

Somerfield, which has been the subject of recent bid speculation, surprised the market with stronger than expected interim profits but its marginal increase in sales growth continued to lag the food retailing industry.

Gross margins up by 1 percentage point helped Somerfield report a 12 per cent rise in underlying pre-tax profits to £56.9m (£52.7m).

Including exceptional gains, the pre-tax line rose from £54.6m to £60.9m for the 28 weeks to November 8, on sales ahead from £1.71bn to £1.73bn.

David Simons, chief executive, said it had turned in "another solid set of results showing an improved performance". Moreover, it had not yet exhausted its scope for further margin gains. "I am convinced we will see gross margins grow in this business for several years to

come." While admitting that the sales increase remained substantially lower than the industry's 3.4 per cent, Mr Simons said there had been an improvement in more recent trading and sales, excluding new space, had grown 0.6 per cent in the nine weeks to January 10.

Analysts said that although the growth in sales was disappointing, margin improvements would lead to better than expected full-year profits. Annual forecasts were raised by about £8m to some £115m.

Defending the sales performance, Mr Simons said trading in the core Somerfield stores had increased by 2.4 per cent on a like-for-like basis. This compared with a 2.8 per cent decline in the unconverted stores and a 5.8 per cent fall in the Food Giant discount chain.

Mr Simons refused to comment on the bid speculation which last week fuelled a 7



David Simons sees scope for margin gains

per cent rise in the shares. It is understood the group has not had any initial approach from a prospective bidder. Somerfield shares,

which have eased back from a peak of 261p, closed 4p up at 241 1/2p.

Lex, Page 18

RESULTS

	Turnover (£m)	Pre-tax profit (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends corresponding dividend	Total for year	Total last year
Alexander Holdings...	5 mths to Sept 30	58.2 (80)	0.867 (1.011)	2.46	(0)	-	-	0.1
Alison New S...	6 mths to Oct 31	1.4 (8)	1.13 (11.7)	1.2	(42.4)	-	-	-
Barnes Inns	6 mths to Oct 31	7.45 (7.25)	1.83 (1.9)	7.2	(7.5)	3.3	3.15	-
Blackwell	6 mths to Oct 31	20.2 (17.2)	0.51 (0.384)	1.9	(1.2)	0.33	0.25	-
Somerfield	28 wks to Nov 8	1.725 (1.714)	60.9 (54.6)	17.8	(14.9)	3.8	3.4	10.2
Devere	Yr to Oct 31	70.2 (55.4)	10.34 (11.6)	8.8	(8.4)	1.95	-	2.55

	NAV (p)	Dividends (£m)	EPS (p)	Current dividend (p)	Date of payment	Dividends corresponding dividend	Total for year	Total last year
Investment Trusts								
Abstract High	3 mths to Dec 31	(-)	(-)	1.7	Feb 17	1.65	-	8.65
Dense	6 mths to Nov 30	68.57 (67.13)	0.234 (0.321)	3.11	(4.56)	3.375	3.275	8.25
Oliver Convertible	Yr to Dec 31	(-)	(-)	4.5	Feb 27	4.5	9	9

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. EPS currency: pence per share in pence. *Comparative retained. *After exceptional charge. *After exceptional credit.

**Privatisation of Autobahn Tank & Rast AG**

Public Invitation to submit Expressions of Interest

The Federal Republic of Germany, represented by the Federal Ministry of Transport in collaboration with the Federal Ministry of Finance, is planning to dispose of a majority shareholding in Autobahn Tank & Rast AG, Bonn. This measure forms part of the German government's policy of privatisation aimed at strengthening and securing Germany's future as an industrial and commercial base by reducing state involvement in the business sector.

A number of measures have been put in hand in recent years to pave the way for the planned privatisation. These include a revision of the German law on long-distance road communications, the issuing of a ministerial order defining operating licence fees and transfer to Autobahn Tank & Rast AG of ownership of the sites involved.

The sites used to provide a range of services to travellers are legally part of the German Autobahn system, whose authority grants operating licences to Autobahn Tank & Rast AG for a limited term. The latter then plans, builds and finances its petrol stations and hotel and catering facilities. It is intended that these should continue to be run in the main by smaller businesses on a franchise basis. Autobahn Tank & Rast AG has become firmly established particularly in the field of retailing with a number of new outlet concepts, and is now pursuing a similar policy on the catering side.

Autobahn Tank & Rast AG currently operates 721 service operations on German motorways, including 294 petrol stations, 325 catering facilities, 46 sales kiosks and 56 motels. In financial 1996 the group had sales of DM 351.5m and reported net income of DM 10.8m. The franchised petrol stations, restaurants, retail outlets and motels serve over 140 customers and generate annual sales of more than DM 5.5bn. Provisional figures show the company as successfully achieving the marked increase in profits planned for 1997 and the outlook is of further growth in the next few years, particularly in the retail and catering segments.

The government's decision to privatise Autobahn Tank & Rast AG will be implemented within the existing legal framework and with the following further policy objectives:

1. To preserve Autobahn Tank & Rast AG in its entirety as a single company
2. To maintain the reputation of the motorways for efficient travel, fuel supply and catering, motel and parking facilities
3. To keep the existing structure of small franchisees with entrepreneurial freedom
4. To maintain the wide range of products on offer at petrol stations and to safeguard the interests of the small-scale suppliers
5. To avoid monopolies
6. To reduce the burden of administration
7. To enhance the efficiency of individual operating units

This invitation is directed to strategic and other interested investors.

Companies wishing to acquire a shareholding in Autobahn Tank & Rast AG should notify the investment bank entrusted with the privatisation (address below) to this effect by no later than 6 February 1998, stating the reasons for their interest.

Sal. Oppenheim jr. & Co.
Bankhaus seit 1789

Sal. Oppenheim jr. & Co. Kommanditgesellschaft auf Aktien
Unter Sachsenhausen 4, D-50667 Köln

Arthur Friedrich Deichmann
Public Sector / Privatisations

+49 221/145-1738
Fax +49 221/145-1039

Albert H. Savelberg
Mergers & Acquisitions

+49 221/145-1626
Fax +49 221/145-1629

The above-named will be pleased to furnish further information concerning the company and the privatisation procedure.

Hercules moves to reassure on overpaying

By Andrew Edgecliffe-Johnson in London and William Hall in Zurich

Hercules of the US moved to reassure analysts yesterday that it would not overpay for Allied Colloids, the UK chemicals group, despite having raised its hostile bid twice in seven hours on Monday.

Ciba Specialty Chemicals, Hercules' Swiss rival, was last night still considering whether to put in a counter offer, after Hercules shares fell by 2 1/2p to 246 1/2p.

One Hercules shareholder said he was reassured that Keith Elliott, the group's chairman and chief executive officer, said that much of the directors' personal wealth was in the form of Hercules shares and options, so they had every incentive not to overpay in an auction.

Ciba is believed to be considering less drastic cost-cutting than Hercules, and is keen to retain Allied's senior management. Its original recommended bid proposal was hammered out with Allied's board and advisors at Schroders in the Savoy Hotel over the weekend.

Morgan Stanley cut its forecast of Hercules' 1998 earnings yesterday, but Mr Elliott told analysts that the sterling/dollar exchange rate

had moved in Hercules' favour since it first bid \$1.8bn in November.

He added that the bid would still benefit 1998 earnings at the current price of £1.35bn (\$2.2bn). Its current 185p per share bid compares with an original price of 155p, and with Ciba's announcement on Monday that it was considering a 182.75p recommended offer.

Allied's shares rose 3p to 196 1/2p yesterday as analysts speculated that Ciba might return with a bid of 200p-210p. Hercules disclosed that it bought a 3.56 per cent stake on Monday at 185p per share. This compares to the 4.87 per cent stake bought by Ciba at 182p.

It emerged that trustees of a long-term incentive plan for Allied Colloids' management bought 448,000 shares on Monday at 185p - above the level of Ciba's proposed deal - before Hercules lifted its bid to 185p. Allied's advisors said the purchase was cleared with the Takeover Panel and would allow the trustees to deliver stock that has already been conditionally awarded.

Shares of Ciba, which had risen on Monday, fell by 5p to 187 1/2p yesterday as the group reported a 19 per cent rise in full-year sales to \$37.8bn (\$5.27bn).

Pru's new business falls in quarter

By Christopher Brown-Hume

Problems in its UK salesforce and a disappointing fourth quarter in the US hit new business at Prudential Corporation last year and sent its shares falling yesterday.

The UK's biggest life group saw underlying new UK business growth fall 3 per cent, while the US was down 27 per cent in the final quarter.

The shares fell from 796p to 770p. Analysts blamed the unexpected US deterioration, but they also highlighted profit-taking after the rise in the shares from 721p at the start of the year.

The Pru's UK equivalent premium income an industry measure combining regular premiums with 10 per cent of single premiums - fell from £590m to £571m (£591m). These figures excluded the initial contribution from newly-acquired Scottish Amicable, and investment products.

"These are worse UK new business figures than we saw from either Norwich Union or Legal & General", said Roman Cidrya, analyst with Merrill Lynch.

But he stressed the market had been expecting poor UK results after well-publicised problems with the Pru's UK salesforce.

These led the company to retest its entire 5,000 sales personnel, which involved taking them off active selling duty for a short period. This, with a moratorium on recruits, has cut the salesforce by about 500. Prudential estimated it had lost about £40m of sales because of the restructuring.

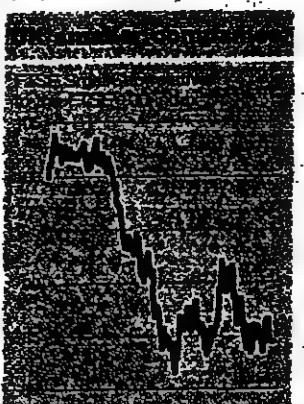
Scottish Amicable contributed £100m of single premiums and £21m of regular premiums in the quarter.

In the US, Jackson National Life saw final quarter new business slump to \$466m, against \$998m in the third quarter and \$837m a year ago. The company said this reflected lower sales of Guaranteed Income Contracts and lower US interest rates.

LEX COMMENT

Small companies

Is the smaller companies effect dead? A recent analysis of the Hoare Govett Smaller Companies Index shows not only eight years of underperformance, but blames this on weak dividend and earnings growth rather than fickle market sentiment. For 1998, pessimism still abounds: small companies are seen as vulnerable to the strong pound and/or a slowdown in the UK economy. Ironically, 1997 was a good year for small companies' profits. Earnings per share growth for FTSE SmallCap constituents was as high as 20 per cent on some estimates, more than twice the All-Share average. Strong growth combined with a derating has left smaller companies on a price-earnings discount to the market of 15-20 per cent. Four years ago that was about the size of their premium. The low rating may, of course, foreshadow cuts in profit forecasts, but at least this means some disappointment is in the price.



Are small companies now cheap enough to attract buyers? Scepticism remains too high for a blanket rating. But there are two areas of encouragement. First, some sectors in which SmallCaps are well represented have lived up - the new information technology sector is a prime example.

Second, a wave of bids for smaller companies, from both industry rivals and venture capital funds, mostly represent opportunistic moves on sound but undervalued targets. The investment equivalent of this is stock picking, and smaller companies are fertile territory for this approach.

NEWS DIGEST

Reed Elsevier to pay compensation

Reed Elsevier, the Anglo-Dutch publishing group, is to offer companies that advertised in the group's hotel and airline directories about £200m (£326m) compensation for overstating their circulation figures. The offer, which follows the discovery last September that circulations of titles such as Hotel & Travel Index had been exaggerated for the past five years, is likely to bring the total cost of the affair to about £450m.

The Reed Travel Group of titles is also to be split between two other divisions of Reed Elsevier, Kathy Misunas, who has been chief executive of Reed Travel for the past year, is to leave as a result of the restructuring. Shares in Reed International, which has 50 per cent of Reed Elsevier along with the Dutch group Elsevier, closed 13p up at 658p on confirmation that compensation would be in line with analysts estimates of £150m to £200m.

Reed Elsevier confirmed that it intended to write down the £488m intangible assets of Reed Travel by a "substantial" amount in its 1997 accounts. City analysts have estimated the likely write-down at £200m-£250m.

The company said it intended to place its hotel directories and travel business magazines under Reed Elsevier Business Information in the US, while its airlines titles would be managed under Reed Business Information in the UK.

John Gapper

CRH spending spree

CRH, the Ireland-based building materials group, has completed a series of continental European and North American acquisitions for a total of £947m (\$945m), taking the value of its deals agreed last year to about £930m.

Deals in North America were worth £35m and included Utility Precast in Dallas; 66 per cent of Groupe Permacon, a Canadian masonry and paving company; Corbell Brick, a Houston-based concrete brick and block company; Central Utah Block in Salt Lake City; Glass Distributors of America with sites in Georgia, North Carolina and Florida; and Custom Glass of Vancouver.

CRH has also concluded a further £12m of deals in Europe for the outstanding 10 per cent of Marlux Group, a decorative concrete paving company, and the 20 per cent minority of Hexas, a Dutch fencing and security systems company.

Andrew Taylor

Lonrho talks with JCI

Lonrho, the conglomerate trying to hammer out a new identity as a coherent mining group, should be able to report progress on its acquisition talks with JCI, the South African mining house, at its results on Thursday.

South African observers said yesterday that Sir John Craven and Nicholas Morrell, Lonrho's chairman and chief executive, had held "constructive" talks in Johannesburg with Vaughan Bray, who became JCI's chief executive last month when Mzi Khumalo had to step down as executive chairman. The pair also met executives at Anglo American, and are thought to have agreed a deal in principle. Lonrho will not be able to disclose full details on Thursday, however, as its planned deal hinges on the completion of an asset swap between JCI and Anglo.

Lonrho's main interest in buying JCI is the ability to buy back a large block of shares, but it is also pursuing JCI's Tavistock Mining colliery through Duker Mining, in which Lonrho has a 61 per cent stake. Delays to the negotiations have badly damaged Lonrho's shares.

Andrew Edgecliffe-Johnson

Butte Mining to delist

Butte Mining, whose shares have been suspended since January 1997, yesterday asked to be delisted by the London Stock Exchange. The board concluded the expense of complying with the exchange's requirements while Butte was restructuring were not in shareholders' interests.

The stock exchange has recommended, and the company agreed, that shareholder approval be obtained for the sale of its mining property in Montana.

Kenneth Gooding

Ransomes urges acceptance

Ransomes, the Suffolk-based mower manufacturer, yesterday appealed to holders of its convertible preference shares to stop standing in the way of a recommended takeover offer from Textron, the diversified US group.

Paul Hollingworth, Ransomes' company secretary, wrote to shareholders to "encourage those who have not yet accepted to do so as soon as possible." If Textron does not get acceptances from 90 per cent of Ransomes' preference shares, its £141.5m offer will lapse.

CPF shares suspended

Compagnie de Participations Financières (Luxembourg), the Aim-listed property company which on Friday said it was having funding difficulties, yesterday said its shares had been temporarily suspended pending an announcement. The shares were suspended at 307 1/2p.



Why the leading international supplier of online information chose Chase

\$117,500,000

THE DIALOG CORPORATION
The Dialog Corporation plc

Senior Secured Credit Facilities

Administrative Agent
Chase Manhattan International Limited

Lead Arranger
Chase Manhattan plc

November 1997

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Chase, the world's top arranger of leveraged finance, is also a leader in financing and advising a broad range of media companies, with particular expertise in structuring and executing large, complex transactions.

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\$185,000,000

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The Dialog Corporation plc

11% Senior Subordinated Notes due 2007

Price 100%

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November 1997

This announcement appears as a matter of record only.

CURRENCIES AND MONEY

Governor sends pound below DM3.00

MARKETS REPORT

By Simon Kuper

The pound fell yesterday after Eddie George, governor of the Bank of England, complained about its strength. "That makes life extremely uncomfortable not just for the exposed sectors but for us, the monetary policy committee," he said.

Currency strategists took this as a hint that with the pound above DM3 to the D-Mark, the Bank might hold back from raising interest rates for fear of holding sterling even higher. However, Jeremy Hawkins, chief economist at Bank of America in London, cautioned: "In the past Mr George has shown that when push comes to shove, it is the domestic economy that takes priority in setting rates."

The pound dropped 0.8 cents against the dollar and 0.6 pence against the D-Mark to close in London at

\$1.628 and DM2.966.

The dollar shrugged off the falling pound to advance modestly against the D-Mark. It closed 0.4 pence higher at DM1.841, partly thanks to rumours that today's German survey of December business sentiment would be weak.

The dollar was barely changed against the yen at ¥129.0.

The Indonesian rupiah, Malaysian ringgit and South Korean won gave up some ground after their recent surges against the dollar.

The Bank of Canada intervened again to support the Canadian dollar after disappointing manufacturing orders figures hit the currency, which is near a 12-year low.

The pound dropped 0.8 cents against the dollar and 0.6 pence against the D-Mark to close in London at

■ Last July, the pound rose to DM3.08 against the D-Mark. When it then slumped, currency strategists agreed that this bull run had hit its peak. But now the pound has returned to the DM3.00 level, and many predict that it can go higher still.

Mr Hawkins says: "We could see a temporary move above DM3 just on the grounds that if you are going to sell sterling, what do you buy? Few investors favour the D-Mark at the moment. Asian currencies are generally considered too risky for sizeable bets, and much of the market is already long the dollar. Michael Burke, senior economist at Citibank in London, adds that sterling can rise precisely because most investors expect it to fall. That means that few long positions have been built up so far. He adds: "Near term, there still seems to be a head of steam left behind consumer demand."

Dollar

Against the Indonesian rupiah

(Rp per \$)

11,000

10,000

9,000

8,000

7,000

6,000

5,000

4,000

3,000

2,000

1,000

0

Dec 1997 Jan 98

Source: DataStream/ICI

■ The Irish punt fell against the D-Mark after Monday's Ecofin meeting of European finance ministers passed with no sign that the currency might be revised.

The punt has long been trading well above its mid-rate within the European exchange-rate mechanism of DM2.41, and there had been talk that the mid-rate would be raised before economic

and monetary union began. But after the silence of Ecofin, and a mere 1.5 per cent rise in consumer prices for 1997, the punt fell 1.4 pence against the D-Mark to DM2.515.

■ No one dares say it outright, but everywhere market analysts are cautiously suggesting that the Asian crisis might just possibly be beginning to ease.

Goldman Sachs yesterday enumerated what it considers to be the good news from the region:

■ Japan appears to be preparing a fiscal stimulus that could be worth as much as ¥10,000bn, or 3 per cent of gross national product.

■ The Irish punt fell against the D-Mark after Monday's Ecofin meeting of European finance ministers passed with no sign that the currency might be revised.

■ The market is applauding Korea's efforts to renege its debts.

■ The Korean and Thai current accounts have already moved into surplus.

■ Korea, and to a lesser degree Indonesia and Thailand, appears to be making policy changes.

■ China seems to have a "very strong" commitment to maintain the currency pegs of the yuan and the Hong Kong dollar.

■ Avinash Persaud, global head of foreign exchange research at J.P. Morgan in London, says: "Lamentable is the life of the returns-driven investor faced with pitifully low yields on US Treasuries. Italian government and Australian government bonds. To her eyes, the potential returns in some Asian markets will appear temptingly lucrative."

A possible sign of a turn in emerging markets is that Poland is now intervening to weaken its currency.

MONEY RATES

January 20

Over night

One month

Three months

Six months

One year

Long term

Dollars

Repos

Rate

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POUND SPOT FORWARD AGAINST THE POUND

Jan 20

Closing

Change

Spread

Day's bid

One month

Three months

Six months

One year

Bank of

Europe

Australia

Canada

Hong Kong

India

Japan

Korea

Malaysia

New Zealand

Norway

Singapore

South Africa

South Korea

Taiwan

Thailand

USA

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South Africa

South Korea

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UK

USSR

Argentina

Brazil

Canada

Mexico

New Zealand

Norway

Singapore

South Africa

South Korea

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jan 20

Closing

Change

Spread

Day's bid

One month

Three months

Six months

One year

Bank of

Europe

Australia

Canada

Hong Kong

India

Japan

Korea

Malaysia

New Zealand

Norway

Singapore

South Africa

South Korea

Taiwan

Thailand

USA

UK

USSR

Argentina

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Argentina

Brazil

Canada

Mexico

New Zealand

Norway

Singapore

South Africa

South Korea

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jan 20

Closing

Change

Spread

Day's bid

One month

Three months

Six months

One year

Bank of

Europe

Australia

Canada

Hong Kong

India

Japan

Korea

Malaysia

New Zealand

Norway

Singapore

South Africa

South Korea

Taiwan

Thailand

USA

UK

USSR

Argentina

Brazil

Canada

Mexico

New Zealand

Norway

Singapore

South Africa

South Korea

Taiwan

Thailand

USA

UK

USSR

Argentina

Brazil

Canada

Mexico

New Zealand

Norway

Singapore

South Africa

South Korea

Taiwan

COMMODITIES AND AGRICULTURE

Move to refloat freight indices

London's Baltic Exchange is considering the relaunch of tanker derivatives

Today in London the board of the Baltic Exchange, the world's oldest shipping exchange, is meeting to consider dusting off a piece of history—the provision of a series of tanker freight rate indices. It is an optimistic move; previous attempts failed more than a decade ago.

In 1985, the exchange launched a dry cargo shipping freight index, and in 1986 one for tankers; both linked to derivatives trading. The dry cargo Baltic International Freight Futures Index (Biffex) is still with us, though trading in Biffex futures contracts on the London International Financial Futures Exchange is low.

However, the Tanker International Freight Futures Index (Tiffex) died the same year it was launched. Tiffex traded 121 lots on its first day but swiftly dropped below that. By its end, no more than 30 contracts a day were being traded.

Gordon Southcott, who is putting the new proposals for tanker derivatives to the Baltic Exchange's board, says the plan—which will be termed Tiffex II—is more than a re-creation of the failed index.

For one thing, there is no proposal to create a tanker

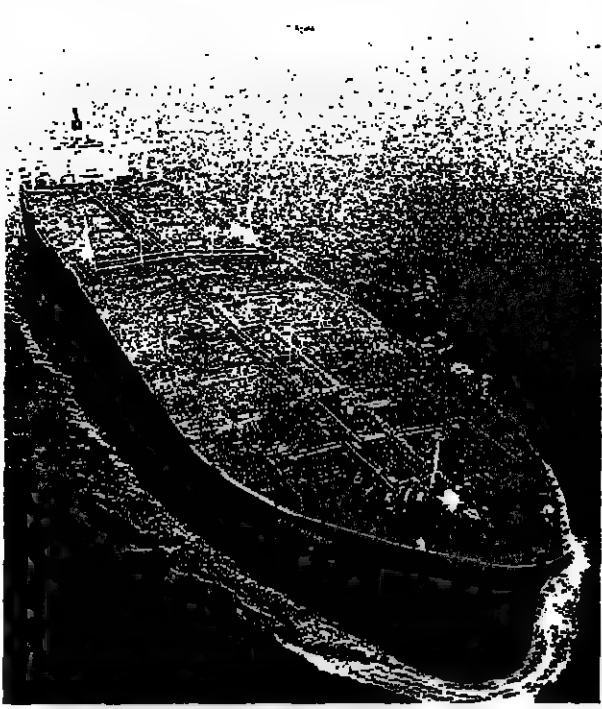
freight index based on an averaged-out basket of leading tanker routes.

"There are too many indices around as it is. What we are proposing to do is provide a series of tanker route freight scales for the purpose of trading paper," says Mr Southcott, chartering director of Fiona Maritime Agencies and chairman of the Baltic Freight Index Committee. "The Baltic has been asked by the Forward Freight Agreement Brokers Association to set this up."

The FFABA was formed in September 1997 by a group of brokers who actively trade forward freight agreements, or FFAs, which are traded principal-to-principal contracts for a specified route on a specified date.

FFAs provide a means of hedging risk and are, according to some brokers, more flexible and therefore more attractive freight derivatives than the Biffex, which is now an average of 11 different routes. But FFAs have been limited mainly to dry cargoes; the new initiative is to extend them to tankers.

FFA business has soared since the market started in 1992. According to Philippe van den Abele, director of Clarkson Securities (part of Horace Clarkson), his volume of FFA business—in



Tanker indices should provide a useful pricing mechanism

which neither party to the contract is allowed the option to lift the cargo physically—in dry cargoes and some tanker freight has soared from a \$500,000 start in 1992 to \$850m in 1997.

Eric Shawyer, chairman of the Baltic Exchange, has been in the shipbroking

industry since 1948. He believes Tiffex died because "the whole business of freight futures and derivatives was in their infancy."

"At that time there was no call for them. I think this new initiative will work but only if it's a tool for business and not merely for gambling," he says.

Supporters of the move hope the new tanker freight assessments will also provide a useful pricing mechanism for the tanker freight business as a whole, as well as advancing the cause of FFAs.

Mr van den Abele supports the Baltic's efforts to get a new tanker freight derivative off the ground, but is "not entirely convinced" it will succeed.

"If it works, then it will be great business for us, but there may be difficulty in achieving a sufficiently liquid market for FFAs in tanker freight. I am not sure if those in the tanker industry—principally the charterers—are really keen on the idea. Their main concerns have always been logistics and the actual price of the commodities they trade; the cost of freight has often been relatively incidental to them."

Mr Shawyer says that, if today's board meeting backs the plan, the new tanker freight estimates will be given a dry run on the market "by the end of February."

Is he optimistic they will swim, where Tiffex sank? "Hope springs eternal," he concurs.

Gary Mead

Oil price falls on progress in Iraq

MARKETS REPORT

By Robert Corzine, Kenneth Gooding and Gary Mead

Oil prices softened yesterday as petroleum markets searched for new factors that might set a more definitive tone to trading. Brent Blend for March delivery was \$15.63 a barrel in late trading on London's International Petroleum Exchange, 15 cents down on Monday's close.

Some of the weakness was attributed to recognition that progress continued to be made on the Iraqi oil for food deal in spite of renewed confrontation with UN arms inspectors.

The London Metal Exchange zinc, which on Monday fell by 8 p.c., regained part of the decline, climbing 1.3 p.c. to \$1,133. "The target for zinc is to break clear of \$1,150 but that's going to be tough," said Alan Williamson, analyst at Deutsche Morgan Grenfell.

Reynolds Metals, second largest US aluminium producer, said it will restart 47,000 tonnes of capacity because demand is strong. It said aluminium consumption should rise by 2.5 to 3.5 per cent this year and by 2.5 to 4 per cent for the rest of the decade.

Gold's price was volatile. At the close in London it was up \$581.30 a troy ounce at \$284.75 but during the day had reached \$292.

Coffee futures rallied on the London International Financial Futures Exchange, the benchmark March contract closing \$33 higher at \$1,748 a tonne, having peaked at \$1,753 earlier.

Cocoa futures on Liffe also closed higher, up \$16 a tonne to \$2,049, though no fundamental news drove the fresh interest.

COMMODITIES NEWS DIGEST

Talks restart on Kolwezi project

Talks about the Kolwezi copper-cobalt waste dumps project in the Republic of Congo (formerly Zaïre) will start again today. Gecamines, the state-owned mining group, stirred up controversy earlier this month when it cancelled a tender for the project even though American Mineral Fields, a US company, had agreed in April to buy Kolwezi for \$1bn.

Gecamines issued a long statement yesterday to clarify its position. It insisted that it had scrupulously complied with its own procedures for granting contracts and said AMF had not satisfied the financial conditions.

AMF is suing Anglo American Corporation, South Africa's biggest company, for \$3bn in Texas, claiming Anglo interfered with the negotiations and offered to pay the Congo government tens of millions of dollars in upfront cash to squeeze AMF out. Anglo repeated yesterday that it was not interested in the project and had done no wrong.

A team from AMF arrived in Kinshasa yesterday to reopen talks with the government. An AMF official said: "We have doubts about the Gecamines statement but we don't want to discuss it with the press. It would not benefit our negotiations with the government and Gecamines."

On January 12, AMF completely reconstituted its board and Robert Stewart, the new chairman, is leading its Congo delegation. Mr Stewart, when working for the Bechtel engineering group last year, was directly involved in developing a reconstruction and development plan for Congo. The AMF official said the board reorganisation would have taken place even if there had been no difficulties with the Kolwezi project.

Kenneth Gooding, Mining Correspondent

SWINE FEVER

Germany moves to calm concerns

German agricultural officials yesterday moved to calm concerns raised by the latest outbreak of swine fever in the country. At a meeting of European Union farm ministers in Brussels, German officials said they expected the outbreak to die out by the end of the week and that testing was continuing. In the meantime, Germany has stopped the export of pigs from affected areas.

Germany played down a ban imposed by Belgium on all imports of German pigs. According to officials, Belgium will lift the ban once Germany can show that the outbreak is over. In the past two weeks, there have been discoveries of swine fever, which is highly infectious, in two German states. There have been precautionary cullings of pigs in other states, including North Rhine Westphalia which borders Belgium.

The outbreak in Germany, which has affected one of the country's biggest pig rearing farms, comes in the wake of an epidemic last year in the Netherlands. The disease has also appeared in Spain. The European Commission has made clear it has no plans to ban German pig exports, and the farm ministers considered no such proposal at their meeting yesterday.

Meanwhile, Dutch authorities yesterday imposed new curbs on pig farms in the wake of fresh outbreaks in the south of the country.

Daniel Dombey, Brussels

India forced to increase cotton imports

By Kunal Bose in Calcutta

India is being forced to increase imports of cotton because of a shortage of domestic supplies. Bad weather means this season's crop is smaller than expected, and supplies are taking longer than usual to arrive.

A 35 per cent rise in the price of highest quality extra long cotton is also making imported cotton more attractive to textile mills.

The mills are making "fairly large imports" of Giza 86 variety from Egypt and

Pima cotton from the US, according to trade officials. They are also importing medium long staple cotton from Russia and Australia.

"The shortage of high quality cotton in the current season will be much greater than the Cotton Advisory Board has projected," an industry official said, "and therefore, the mills must replenish stocks through imports."

Trade officials said the CAB's crop forecast of 18.9m bales (of 170 kg each) for the current season had been

"too optimistic". The crop could turn out to be as small as 15.5m bales, they said. Last year's production was a record 17.55m bales.

The domestic crop losses will be highest in the northern Indian states of Punjab, Rajasthan and Haryana. The late arrival of the monsoon, bringing unseasonal rain in October and November, caused withering of cotton bolls and leaf curl virus over large tracts of land.

This will restrict the cotton production of northern states to 3.3m bales in the

current year, compared with 4.55m bales in 1996-97. Nearly 60 cotton growers in Andhra Pradesh, the country's second largest cotton growing state, committed suicide in the past two months as the crop failed in nearly 300,000 acres.

Trade officials said only 4.8m bales arrived to market in the first three months of the season, compared with 5.5m bales last year. However, India's poor crop monitoring system means the textiles ministry was not aware of the shortfall in production when it released

720,000 bales for export in the current season. Deepak Parikh, chairman of the Indian Cotton Mills Federation, said the government should not allow any further exports.

"The CAB said India would start the next season with stocks of only 2,062m bales, which could meet the industry's requirement for a month and a half."

"Normal opening stocks should feed the mills for at least two and a half months," Mr Parikh said.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

ALUMINIUM, 99.7 PURITY (\$ per tonne)

Cash 3 mths
Close 1467-88 1468-92.5
Previous 1478.5-79.5 1503-04
High/Low 1468/1487 1503/1487
AM Official 1480-80.5 1506.5-07.5
Karb close 1489-97
Open int. 271-748
Total daily turnover 11,198

ALUMINIUM ALLOY (\$ per tonne)

Close 1328-35 1351-55
Previous 1325-35 1352-57
High/Low 1360/1351 1387-40
AM Official 1337-39 1357-40
Karb close 1333-58
Open int. 5,272
Total daily turnover 2,213

LEAD (\$ per tonne)

Close 510.5-1.8 519-20
Previous 505.5-6.5 514-15
High/Low 508/514 528/514
AM Official 506-10 516-9
Karb close 507-9 527-9
Open int. 33,390
Total daily turnover 10,182

NICKEL (\$ per tonne)

Close 3300-10 3305-20
Previous 3300-40 3305-40
High/Low 3300/3300 3305/3300
AM Official 3325-30 3345-30
Karb close 3325-30 3345-30
Open int. 56,379
Total daily turnover 28,312

TIN (\$ per tonne)

Close 5115-26 5160-65
Previous 5100-10 5145-55
High/Low 5170/5140 5170/5140
AM Official 5115-20 5170-75
Karb close 5115-20 5170-75
Open int. 14,304
Total daily turnover 5,233

ZINC, special high grade (\$ per tonne)

Close 1108-09 1132-33
Previous 1098.5-94.5 1116-18
High/Low 1108/1085 1132/1118
AM Official 1108-08.5 1132-33
Karb close 1108-08.5 1132-33
Open int. 73,215
Total daily turnover 33,424

COPPER, grade A (\$ per tonne)

Close 1881-82 1890-91
Previous 1860-81 1706-7
High/Low 1876-77 1704/1803
AM Official 1876-77 1704/1803
Karb close 1876-77 1704/1803
Open int. 148,904
Total daily turnover 75,645

LME AM Official E/R ratio: 1.5215

LME Closing Z/R ratio: 1.6299

Spot 1.6273 1 mth 1.6196 6 mth 1.6125 9 mth 1.6042

HIGH GRADE COPPER (COMEX)

Sett. Day's
price change High Low Vol. Int.
Jan 76.10 -0.20 76.10 75.35 324 807
Feb 76.30 -0.25 76.80 75.50 28 2,000
Mar 77.00 -0.25 77.40 76.75 7,367 38,213
Apr 77.40 -0.20 77.80 77.10 1,053
May 77.80 -0.20 78.20 77.50 300 5,874
Jun 78.10 -0.20 78.40 77.80 28 1,724
Total 8,923 69,892

PRECIOUS METALS

(Prices supplied by N M Rothschild)

GOLD (Troy oz) \$ price £ equiv \$/equiv

Close 288.00-288.10
Opening 288.00-288.40
Morning fix 175.41 430.20
Afternoon fix 288.40 177.05 431.53
Day's High 288.50-293.00
Day's Low 287.70-287.10
Previous close 287.20-287.80

LEO LME Gold Lending Rates (Vs US\$)

1 month -3.81 6 months -3.74
2 months -3.80 12 months -3.71
3 months -3.78

SILVER Fix \$/equiv £ equiv

Spot 355.30 580.00
3 months 364.25 575.85
6 months 365.05 574.15
1 year 364.55 568.25
Gold Ozone \$ price £ equiv
Kruggerand 287.5-290.5 177-178
Maple Leaf 67-70 41-43
New Sovereign 67-70 41-43

PRECIOUS METALS continued

GOLD COMEX (100 Troy oz; \$/equiv)

Sett. Day's
price change High Low Vol. Int.
Jan 288.10 -0.20 288.10 287.10 324 807
Feb 288.30 -0.25 288.80 287.50 28 2,000
Mar 289.00 -0.25 289.40 288.75 7,367 38,213
Apr 289.40 -0.20 289.80 289.10 1,053
May 289.80 -0.20 290.20 289.50 300 5,874
Jun 290.10 -0.20 290.40 289.80 28 1,724
Total 8,923 69,892

PLATINUM NYMEX (50 Troy oz; \$/equiv)

Jan 378.5 -0.5 379.0 378.0 2 60
Feb 378.5 -0.5 379.0 378.0 2 60
Mar 378.5 -0.5 379.0 378.0 2 60
Apr 378.5 -0.5 379.0 378.0 2 60
May 378.5 -0.5 379.0 378.0 2 60
Jun 378.5 -0.5 379.0 378.0 2 60
Total 12,000 12,000

PALLADIUM NYMEX (100 Troy oz; \$/equiv)

Jan 220.85 -0.15 221.00 220.80 200 3,234
Feb 220.85 -0.15 221.00 220.80 200 3,234
Mar 220.85 -0.15 221.00 220.80 200 3,234
Apr 220.85 -0.15 221.00 220.80 200 3,234
May 220.85 -0.15 221.00 220.80 200 3,234
Jun 220.85 -0.15 221.00 220.80 200 3,234
Total 12,000 12,000

SILVER COMEX (50,000 Troy oz; \$/equiv)

Jan 564.3 -11.5 - - 5 101
Feb 565.0 -11.0 - - 5 101
Mar 565.7 -11.0 565.5 565.0 9,386 67,432
Apr 566.4 -10.5 566.0 565.5 9,386 67,432
May 567.1 -10.5 566.5 566.0 9,386 67,432
Jun 567.8 -10.5 567.0 566.5 9,386 67,432
Total 10,989 62,494

ENERGY

CRUDE OIL NYMEX (1,000 barrels; \$/barrel)

Sett. Day's
price change High Low Vol. Int.
Feb 16.57 -0.08 16.58 16.51 42,189 56,737
Mar 16.73 -0.04 16.74 16.68 50,883 105,78
Apr 16.89 -0.07 16.90 16.82 51,167 61,338
May 17.00 -0.08 17.01 16.93 26,186 28,552
Jun 17.10 -0.07 17.11 17.02 5,053 40,224
Jul 17.20 -0.07 17.21 17.12 2,362 17,890
Total 196,911 427,887

CRUDE OIL LPE (\$/barrel)

Sett. Day's
price change High Low Vol. Int.
Mar 15.58 -0.25 15.59 15.52 13,889 94,110
Apr 15.74 -0.20 15.75 15.67 6,473 26,561
May 15.90 -0.16 15.91 15.83 807 16,367
Jun 16.10 -0.13 16.11 16.02 1,256 20,544
Jul 16.31 -0.10 16.32 16.23 320 12,886
Aug 16.50 -0.08 16.51 16.42 212 5,362
Total 21,816 101,299

HEATING OIL NYMEX (42,000 US gal; \$/equiv)

Sett. Day's
price change High Low Vol. Int.
Feb 47.05 -0.30 47.10 46.90 51,214
Mar 47.40 -0.15 47.45 47.20 10,286 38,186
Apr 47.85 -0.15 47.90 47.60 5,870 18,292
May 48.30 -0.10 48.35 48.10 2,455 10,785
Jun 48.75 -0.10 48.80 48.50 790 15,525
Jul 49.20 -0.10 49.25 49.00 374 10,785
Total 82,344 179,878

GAS OIL LPE (\$/barrel)

Sett. Day's
price change High Low Vol. Int.
Feb 14.25 -0.15 14.30 14.20 5,408 22,028
Mar 14.75 -0.15 14.80 14.60 1,306 13,835
Apr 14.95 -0.15 15.00 14.80 746 10,286
May 15.15 -0.15 15.20 15.00 1,470 10,286
Jun 15.35 -0.15 15.40 15.20 732 13,103
Jul 15.55 -0.15 15.60 15.40 1,470 10,286
Total 11,488 101,299

NATURAL GAS LPE (1,000 therms; \$/therm)

Sett. Day's
price change High Low Vol. Int.
Feb 14.30 -0.05 14.35 14.30 15 2,346
Mar 11.50 - - - - 595 11,490
Total 11,505 11,490

NATURAL GAS NYMEX (10,000 therms; \$/therm)

Sett. Day's
price change High Low Vol. Int.
Feb 2.10 -0.075 2.125 2.100 31,697 37,264
Mar 2.090 -0.089 2.115 2.085 7,486 27,890
Apr 2.115 -0.040 2.155 2.110 4,303 12,747
May 2.125 -0.027 2.150 2.125 2,440 11,696
Jun 2.145 -0.020 2.165 2.145 745 10,273
Jul 2.165 -0.017 2.180 2.165 607 10,785
Total 60,955 129,536

UNLEADED GASOLINE NYMEX (42,000 US gal; \$/equiv)

Sett. Day's
price change High Low Vol. Int.
Feb 51.30 -0.31 51.50 51.10 11,728 31,167
Mar 51.85 -0.16 52.00 51.65 8,149 23,951
Apr 52.40 -0.38 52.78 52.02 3,613 16,591
May 53.00 -0.31 53.30 52.69 2,728 11,278
Jun 53.60 -0.38 53.98 53.20 2,380 8,758
Jul 54.20 -0.48 54.68 53.70 406 7,250
Total 28,738 106,071

GRAINS AND OIL SEEDS

WHEAT LPE (100 cwt; \$/cwt)

Sett. Day's
price change High Low Vol. Int.
Jan 77.70 -0.30 - - 39
Feb 78.20 -0.30 78.50 78.00 2,048 14,529
Mar 81.30 -0.30 81.60 81.00 112 3,689
Apr 82.30 -0.30 82.60 82.00 31 820
May 83.30 -0.30 - - 36
Jun 84.30 -0.30 - - 36
Total 2,668 18,572

WHEAT CBT (5,000 cwt; \$/cwt)

Sett. Day's
price change High Low Vol. Int.
Mar 241.25 -0.25 241.50 241.00 14,529
Apr 241.25 -0.25 241.50 241.00 14,529
May 241.25 -0.25 241.50 241.00 14,529
Jun 241.25 -0.25 241.50 241.00 14,529
Total 57,126 218,126

MAIZE CBT (5,000 cwt; \$/cwt)

Sett. Day's
price change High Low Vol. Int.
Mar 241.25 -0.25 241.50 241.00 14,529
Apr 241.25 -0.25 241.50 241.00 14,529
May 241.25 -0.25 241.50 241.00 14,529
Jun 241.25 -0.25 241.50 241.00 14,529
Total 57,126 218,126

BARLEY LPE (100 cwt; \$/cwt)

Sett. Day's
price change High Low Vol. Int.
Jan 73.00 -0.35 - - 18
Feb 73.50 -0.35 73.80 73.00 120 1,267
Mar 74.00 -0.35 74.30 73.50 120 1,267
Apr 74.50 -0.35 74.80 74.00 120 1,267
May 75.00 -0.35 75.30 74.50 120 1,267
Jun 75.50 -0.35 75.80 75.00 120 1,267
Total 120 1,267

SOYABEANS CBT (5,000 cwt; \$/cwt)

Sett. Day's
price change High Low Vol. Int.
Mar 67.00 -11.00 68.00 67.00 873 1,048
Apr 67.50 -11.00 68.50 67.50 873 1,048
May 68.00 -11.00 69.00 68.00 873 1,048
Jun 68.5

FT MANAGED FUNDS SERVICE

Fuller	Hydrogen	4-PP	Yield
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مسألة من الأصول

Offshore Insurances and Other Funds

[illegible]

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

Company	1997/98
...
...
...

BANKS, RETAIL

Company	1997/98
...
...
...

BREWERIES, PUBS & REST

Company	1997/98
...
...
...

BUILDING MATS. & MERCHANTS

Company	1997/98
...
...
...

CHEMICALS

Company	1997/98
...
...
...

CONSTRUCTION

Company	1997/98
...
...
...

CONSTRUCTION - Cont.

Company	1997/98
...
...
...

DISTRIBUTORS

Company	1997/98
...
...
...

DIVERSIFIED INDUSTRIALS

Company	1997/98
...
...
...

ELECTRICITY

Company	1997/98
...
...
...

ELECTRONIC & ELECTRICAL EQPT

Company	1997/98
...
...
...

ENGINEERING

Company	1997/98
...
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...

ENGINEERING - Cont.

Company	1997/98
...
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...

EXTRACTIVE INDUSTRIES - Cont.

Company	1997/98
...
...
...

FOOD PRODUCERS

Company	1997/98
...
...
...

GAS DISTRIBUTION

Company	1997/98
...
...
...

HEALTH CARE

Company	1997/98
...
...
...

INSURANCE

Company	1997/98
...
...
...

INVESTMENT TRUSTS

Company	1997/98
...
...
...

INVESTMENT TRUSTS - Cont.

Company	1997/98
...
...
...

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ENGINEERING, VEHICLES

Company	1997/98
...
...
...

EXTRACTIVE INDUSTRIES

Company	1997/98
...
...
...

HEALTH CARE - Cont.

Company	1997/98
...
...
...

HOUSEHOLD GOODS & TEXT

Company	1997/98
...
...
...

INV TRUSTS SPLIT CAPITAL

Company	1997/98
...
...
...

BY TRUSTS SPLIT CAPITAL - Cont.

Company	Share Price	Dividend	Yield
...

OTHER INVESTMENT TRUSTS

Company	Share Price	Dividend	Yield
...

INVESTMENT COMPANIES

Company	Share Price	Dividend	Yield
...

MEDIA - Cont.

Company	Share Price	Dividend	Yield
...

PROPERTY

Company	Share Price	Dividend	Yield
...

PHARMACEUTICALS

Company	Share Price	Dividend	Yield
...

RETAILERS, GENERAL - Cont.

Company	Share Price	Dividend	Yield
...

TRANSPORT - Cont.

Company	Share Price	Dividend	Yield
...

WATER

Company	Share Price	Dividend	Yield
...

AMERICANS

Company	Share Price	Dividend	Yield
...

CANADIANS

Company	Share Price	Dividend	Yield
...

SOUTH AFRICANS

Company	Share Price	Dividend	Yield
...

TRADED INDEX SECURITIES

Index	Share Price	Dividend	Yield
...

GUIDE TO LONDON SHARE SERVICE

Prices and trading volumes for the London Share Service are delivered by Reuters, part of the Financial Times Information Group. Company share prices are based on those used for the FTSE 100 Index.

Share prices are shown in pence unless otherwise stated. For FTSE 100 Index constituents and related securities, the share price is shown in pounds sterling unless otherwise stated. The share price is shown in pence unless otherwise stated. The share price is shown in pence unless otherwise stated.

FT Auto

The Financial Times plans to publish
FT Auto
on Monday February 23 1998

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or your usual Financial Times representative

PROPERTY - Cont.

Company	Share Price	Dividend	Yield
...

SUPPORT SERVICES - Cont.

Company	Share Price	Dividend	Yield
...

RETAILERS, FOOD

Company	Share Price	Dividend	Yield
...

TELECOMMUNICATIONS

Company	Share Price	Dividend	Yield
...

TOBACCO

Company	Share Price	Dividend	Yield
...

TRANSPORT

Company	Share Price	Dividend	Yield
...

RETAILERS, GENERAL

Company	Share Price	Dividend	Yield
...

LEISURE & HOTELS

Company	Share Price	Dividend	Yield
...

LIFE ASSURANCE

Company	Share Price	Dividend	Yield
...

MEDIA

Company	Share Price	Dividend	Yield
...

PAPER, PACKAGING & PRINTING

Company	Share Price	Dividend	Yield
...

RETAILERS, GENERAL

Company	Share Price	Dividend	Yield
...

LEISURE & HOTELS

Company	Share Price	Dividend	Yield
...

LIFE ASSURANCE

Company	Share Price	Dividend	Yield
...

MEDIA

Company	Share Price	Dividend	Yield
...

PAPER, PACKAGING & PRINTING

Company	Share Price	Dividend	Yield
...

RETAILERS, GENERAL

Company	Share Price	Dividend	Yield
...

LEISURE & HOTELS

Company	Share Price	Dividend	Yield
...

LIFE ASSURANCE

Company	Share Price	Dividend	Yield
...

MEDIA

Company	Share Price	Dividend	Yield
...

PAPER, PACKAGING & PRINTING

Company	Share Price	Dividend	Yield
...

LONDON STOCK EXCHANGE

Footsie struggles in spite of news of big merger

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

London's equity market gave a muted response to news of a potential merger involving one of the UK's biggest pharmaceutical companies, SmithKline Beecham.

The news initially sent the share price of SmithKline Beecham and other pharmaceutical stocks spiralling up to new all-time records, before a late slide left SmithKline pennies easier on balance. Stripping out the drug stocks, the FTSE 100 index would have shown a loss throughout the session.

In the event, the index finished the day 4.6 higher at 5,278.2, still well short of its all-time closing high, 5,330.8, and 59.1 below its intra-day record.

The index hit those records in early October, just before the turmoil that engulfed Asian currency and stock markets.

A clearer indication of the overall state of the market was provided by the FTSE 250 which, although never under any great selling pressure, was in negative territory all day, eventually closing 11.9 down at 4,820.9.

The market's smaller stocks were similarly restrained, with the FTSE SmallCap index closing 0.4 easier at 2,362.2.

Stories that SmithKline Beecham had been discussing a merger with American Home Products, the third biggest of the US drugs groups, were circulating in the market late last week.

Confirmation that talks had taken place saw SmithKline Beecham shares erupt, along with those of smaller drug stocks such as Zeneca, Glaxo Wellcome and Nymed, as investors decided the move heralded another round of consolidation in the pharmaceutical industry.

Between them, Zeneca and Glaxo Wellcome accounted for a gain of around 100 points. On Monday, the drug stocks were responsible for all but half a

point of the index's gain of 10.5.

Outside the drug companies, it was mostly a gloomy day in the market, with many engineering and other exporting stocks initially weakened by an early upward move by sterling.

However, later in the day, sterling slipped back below the DM3 level after some cautious words from the governor of the Bank of England.

Footsie fell away to record a 2.0 fall early in the session, as big institutions refused to get drawn into paying high prices for stock, preferring instead to book profits in some of the market's recent winners.

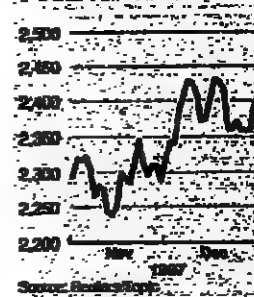
Asian stock markets, which have tended to give a lead to European markets in recent weeks, looked generally more secure yesterday morning.

Footsie's winners included Cable & Wireless, whose Hong Kong subsidiary is to receive a big cash compensation payment for relinquishing its exclusive licence over international calls.

On the downside, Prudential took a pasting after some disappointing new business figures from Jackson National, its US life division.

Turnover continued at relatively high levels, eventually reaching 1.1bn shares, boosted by a placing of 56m shares in Elements.

FTSE All-Share Index



Indices and ratios

FTSE 100	5278.2	+4.6
FTSE 250	4820.9	-11.9
FTSE 350	2528.6	+0.7
FTSE All-Share	2468.1	+0.7
FTSE All-Share yield	3.14	3.14

Best performing sectors

1 Health Care	+2.3
2 Extractive Inds	+1.8
3 Pharmaceuticals	+1.2
4 Household Goods & Texts	+1.2
5 Telecommunications	+1.0

Equity shares traded



Worst performing sectors

1 Leisure & Hotels	-1.5
2 Life Assurance	-1.4
3 Chemicals	-1.4
4 Paper, Pkg & Print	-1.3
5 Oil Exploration	-1.3

FUTURES AND OPTIONS

FTSE 100 INDEX FUTURES (LSE) 25 per 100 index point (AFT)

	Open	Sett price	Change	High	Low	Sett	Open
Mar	5297.0	5300.0	+7.0	5320.0	5272.0	10782	82517
Jun	5350.0	5350.0	+7.0	5380.0	5320.0	0	946

FTSE 250 INDEX FUTURES (LSE) 10 per 100 index point (AFT)

	Open	Sett price	Change	High	Low	Sett	Open
Mar	4907.0	4910.0	+3.0	4930.0	4880.0	0	9190

FTSE 100 INDEX OPTION (LSE) 25 per 100 index point


	5100	5200	5300	5400	5500	5600	5700	5800	5900	6000
	C	P	C	P	C	P	C	P	C	P
Feb	288 ¹ ₂	78	267	51	208 ¹ ₂	105	174 ¹ ₂			
Mar	328 ¹ ₂	139 ¹ ₂	303	156 ¹ ₂	223 ¹ ₂	178	262			
Apr	386 ¹ ₂	180 ¹ ₂	358	169 ¹ ₂	325 ¹ ₂	218	293 ¹ ₂			
May	448	217	417	235	385	254	359			
Jun	481 ¹ ₂	245			429	283				

35

35

[illegible]

NEW YORK STOCK EXCHANGE PRICES

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FRANCE

980 12 13 14 15 18 19
Jan 1988

co Change High

1480.86	3382.32	4548.02	5/8/97
1541.85	628.93	843.28	5/8/97
closed at the end of the account.			
439.02	413.92	740.83	8/7/97
bank at currency rates in office at the M			
304.77	4304.26	4328.28	20/1/9
ous higher as dealers reported sitting on			

* Calculated at 15.00 GMT. © Excludes
 subject to official restrictions. Ⓢ Yields

NASDAQ NATIONAL MARKET

50	20 1/2	-1 1/2	Orthocarb Y	0.50
20 1/2	20 1/2	-1 1/2	Ortho/Vol	1.00
43	3	-1 1/2	Orthocarb	
30 1/2	2	-1 1/2		
64	4 1/2	-1 1/2		
41 1/2	44 1/2	+2 1/2	Packer	2.10
20 1/2	37 1/2	+1 1/2	Pack/Carb	0.24
5 1/2	5 1/2		Prima	
33	34 1/2	+1/2	Pi-Gel	
23 1/2	23 1/2	-1/2	Parmat	
			Paracarb	0.30

12	13	+1
21	22	+1

114	114	44	
334	344	44	
244	244	44	

Stock

Div.

11-5	33-7	+25%
81-2	101-6	-1%

CompuCorp
Comstock
CompTech

27 $\frac{1}{2}$	23 $\frac{1}{2}$	-7 $\frac{1}{2}$	Composite	
19 $\frac{1}{2}$	31 $\frac{1}{2}$	+12	Confidence	
			Group A:	0.3255

Signs of recovery as calm breaks out

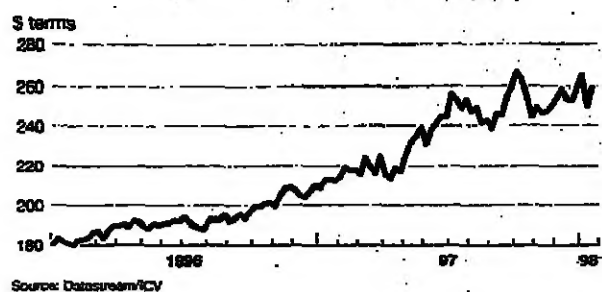
WORLD OVERVIEW

A quieter day in Asia and a subdued return from holiday by Wall Street meant that investors could relax for almost the first time this year, writes Philip Coggan.

There were few wild swings in the equity markets, not even the volatile Pacific Basin region could produce a 3 per cent movement. But there were some encouraging signs of recovery, such as Tokyo's fifth straight advance.

Brian Marber, the technical analyst, believes that a number of chart signals indicate that the Japanese bear market is over.

FT/S&P Europe ex UK Index



Most significant, he says, is a sharp upturn in the number of stocks above their three-month and seven-month averages; this is a classic indicator of a market bottom and occurred on Wall Street in December 1997 following Black Monday.

The main area of concern in Asia continued to be Indonesia where the rupiah dropped below the 10,000-to-the-dollar level, in spite of

the recent reform package.

European markets received their customary fillip from a stronger dollar but were given little direction by Wall Street, which followed Monday's holiday with a lacklustre opening.

A widening in the German trade surplus to DM13.1bn in November masked a 3.5 per cent month-on-month fall in exports which might be an early warning of the effect of the Asian crisis. The Dax in Frankfurt gained 0.5 per cent on the day.

Europe has been generally assumed to be protected from the full effect of the Asian downturn because of the momentum behind the

domestic economies as they emerge from the period of Maastricht-induced austerity.

ABN-Amro Hoare Govett's latest European strategy document is overweight the "peripheral" countries - Italy, Spain, Switzerland, Ireland and Portugal - which will benefit from short rate convergence in 1998, once the cross-rates for monetary union are agreed in May.

But the heavy industrial exposure of Germany and Sweden causes ABN-Amro to underweight those countries because of the potential effect of the Asian crisis.

Within the world portfolio,

ABN-Amro is overweight Europe but warns "highly-rated world equity markets seem ill-placed to cope with any substantial erosion in earnings estimates. The US is our main concern, with Wall Street already showing signs of de-compiling from still bullish bonds."

"European markets are less expensive by comparison," adds ABN-Amro, "but still look stretched and are in no position to straggle off a more cautious mood in US equities. We thus do not expect a repetition of the strong equity returns which were a feature of 1997."

London market, Page 34

EMERGING MARKET FOCUS

Reform suffers Russian winter

When Asia's financial hurricane buffeted Russia - along with all other emerging markets - there was a tendency among local investors to believe the impact was overblown.

As fund managers reviewed the world at the end of 1997, the argument ran, they would decide that Russia looked a comparatively good bet. Russia was enjoying a rare period of political stability, its assets were undervalued and its economy was poised for growth.

Unfortunately, such wishful thinking has collided with a harsher fact: since the beginning of the year, the Russian stock market has fallen by about 30 per cent.

To be sure, the fallout from Asia is still affecting all emerging markets while the Russian market has been further knocked by the drop in world commodity prices. Oil companies account for about half the Russian market's capitalisation.

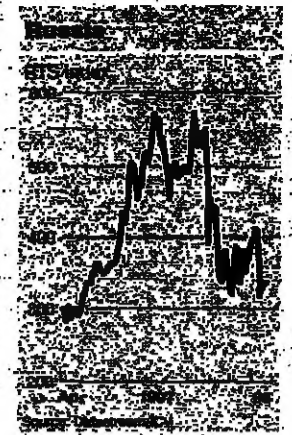
But Russia's specific problems are also looming much larger than before. If there is one lesson to be learned from Asia, it is that microeconomic issues matter.

The Russian government's problems with its public finances, its difficulties in enacting a fair tax code, and a weak domestic banking sector will all restrain economic growth this year.

"A lot of investors are long and wrong on Russia and they can see further declines coming," says John Paul Smith, head of Russian equity research at Morgan Stanley and a long-standing bear on the market.

"The microeconomic situation in the country is so awful it will topple all the favourable macroeconomic arguments."

Mr Smith believes the market could drop a further 30 per cent as investors realise how far Russia



has to go to create a functioning market economy.

But the bulls of the Russian market - and there are many - argue the "worse the better" is the best maxim for any reforming Russian government.

With access to international capital markets cut off for the time being, with little scope to raise domestic borrowing without pushing interest rates sky high, and with a net funding requirement of \$1.5bn a month this year, the Russian government has no alternative but to overhaul its public finances and private more assets.

On this view, even the recent demotion of Anatoly Chubais and Boris Nemtsov, the two reforming first deputy prime ministers, is good news in that it allows them to concentrate their fire on specific targets. Mr Chubais will now devote himself to raising additional government revenue while Mr Nemtsov presses ahead with utilities and housing reforms.

"I think the Russia story is still the same," says Far Mollstrom, head of research at Brunswick Warburg.

"If you look at the history of Russian reform you have always had one step back and two steps forward. You have to have a crisis to move to the next stage of reform."

John Thornhill

Merger news helps to lift US stocks

AMERICAS

US stocks traded higher at midsession as key earnings reports in the health and financial sectors added to market volatility, writes John Labate in New York.

By early afternoon the Dow Jones Industrial Average had gained 24.16 to 7,777.71 and the Standard & Poor's 500 was 7.19 higher at 988.70. Technology shares managed the best overall gains, sending the Nasdaq composite index up 15.95 to 1,578.83.

In the health sector, shares of American Home Products surged more than 13 per cent to \$104.75 on reports that the company was in merger talks with SmithKline Beecham. SmithKline, whose shares trade as ADRs in New York, rose 3 per cent to \$2 to \$59.

News of the potential merger sent drug producers strongly higher. Warner Lambert gained more than 5 per cent to \$136.75. Pfizer gained 2 1/2% to \$79.45, after releasing quarterly earnings. The earnings reporting season heated up in a big day for banking stocks. J.P. Morgan's earnings fell below expectations, and the stock plunged 3 1/2% to \$103.75. Chase Manhattan and Citicorp released results that were generally in line with expectations, although they

saw an Asian effect. Chase's shares rose 1/2% to \$106.75, while Citicorp gained 1/2% to \$20.75.

Among other financial stocks, Merrill Lynch lost 3 1/2% at \$64 after releasing quarterly results in line with expectations.

In the technology sector analysts at Merrill Lynch cut its 1998 earnings estimates for Dell Computer and Compaq Computer. Compaq was down 1/2% at \$59.

Semiconductor shares did especially well, however, as the semiconductor index of the Philadelphia Stock Exchange gained 8.58 or 3.3 per cent to 269.39. Intel rose 1 1/2% to \$75.

Bay Networks, the computer networking company which was expected to announce results later in the day, rose 1 1/2% to \$59.

TORONTO ended a volatile morning little changed. Golds were weak and banks trended lower, but the broader market managed a more robust performance and at noon the 300 composite index was up 0.49 at 6,476.10.

Golds met with profit-taking for the second day running as investors pocketed some of last week's 14 per cent improvement for the sector. Barrick shed \$31.50 to C\$25.15 and Placer Dome came off 85 cents at C\$17.70.

Milan and Madrid hit peaks

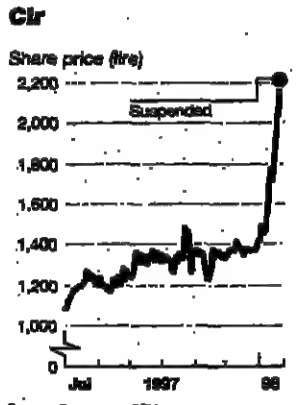
EUROPE

Gains in industrial stocks that have underperformed the market's recent rally enabled MILAN to resume its record-setting run and the Mibtel index closed 211 higher at 18,485.

Oil group Eni gained more than 3.5 per cent to L10,485 and Pirelli rose 1.169 to L4,598. Fiat added L252 to L5,538.

Shares in Cir, the holding company controlled by financier Carlo de Benedetti, were suspended after reaching their maximum permissible upper limit for a second successive day.

The shares were suspended at L2,215, up L200 or 10 per cent on the day. Cir has been in favour since announcing a restructuring programme designed to streamline holdings and increase profits. It has also



benefited from the performance of Olivetti, in which it holds a stake.

MADRID hit a fourth successive all-time high as foreign investors joined in the domestic buying spree. The general index ended 6.52 higher at 682.08. The index has risen 8 per cent this year.

Utilities took centre stage, with Gas Natural rising Pta190 to Pta7,590. Union Fenosa was Pta65 better at Pta1,570 and Iberdrola was Pta85 higher at Pta2,235, an all-time record.

Continuing interest surrounding Argentina's forthcoming privatisation offering helped the bank's shares gain Pta410 to Pta9,380.

LISBON also ended at an all-time high, for the fifth session in a row. The PSI20 index closed at 9,651.90, up 179.28 on the day.

Telecel was the main feature as the telecoms company's shares gained \$1,500 to an all-time high of 24,500, driven by optimism about its forthcoming results and what analysts called a severe stock shortage.

Designers were said to have remained net buyers, but it was a steady day all round with investors awaiting feedback from the meeting between the finance ministry and the IMF on terms of Thailand's \$17.2bn support package. Share turnover eased to Bt5.2bn from Bt7.2bn on Monday.

HONG KONG turned its attention to the telecommunications sector as Hongkong Telecom announced it had surrendered its exclusive international licence.

Telecom gained 40 cents to HK\$15.55 after it said it had reached a deal with the Hong Kong government for an early end to its international licence in return for compensation including HK\$6.7bn cash, net of tax.

Among potential beneficiaries, Hutchison Communications climbed HK\$1.90 to HK\$46 and New World Development added 40 cents to HK\$21.20. Against the trend, Wharf slipped 25 cents to HK\$11.50.

The Hang Seng index finished 33.28 higher at 9,633.70 after hitting a low of 9,212.13 and jumping to an intra-day high of 9,659.27.

SINGAPORE gave up 23

FTSE Actuaries Share Indices

January 20	Index	Change	%	Dividend	Yield	Net Adj	Total Retn
FTSE 100	1025.04	+0.34	+0.03	3.47	2.30	0.00	1033.71
FTSE 100	2365.92	+0.44	+0.02	10.30	2.30	0.00	1033.71
FTSE 100	1041.60	-0.23	-0.02	2.45	3.06	0.00	1052.48
300 UK	1016.21	+0.68	+0.07	4.87	1.70	0.00	1019.10
300 US	954.46	+0.53	+0.06	5.25	1.82	0.00	958.18
300 Euro	1042.44	+0.21	+0.02	2.22	2.39	0.00	1060.73
FTSE Europe 300 Regions							
Resources	914.50	+0.48	+0.05	4.23	3.00	0.00	927.74
General Industrials	927.01	+0.17	+0.02	4.58	2.11	0.00	928.32
Consumer Goods	1033.38	+0.10	+0.01	4.14	1.74	0.00	1038.37
Services	1007.48	+0.01	+0.00	4.09	2.25	0.00	1016.17
Utilities	1114.61	+0.52	+0.05	4.80	2.81	0.00	1123.84
Financials	1058.09	-0.04	-0.00	4.43	2.12	0.00	1064.45

PARIS saw a busy session for pharmaceuticals stocks which took the CAC 40 index above the 3,000-point level. Hit by technical problems, which delayed the start of trading until late morning, overall volume was dull at 10.9m shares. The CAC closed up 21.39 at 3,008.34.

Drugs provided the main feature with Rhône-Poulenc and Sanofi bouncing on the news that SmithKline Beecham of the UK had been in merger talks. Solid sales news from Sanofi offshoot Synthelabo and a good day for the dollar boosted sentiment in the sector.

Rhône jumped FFr7 to FFr302.10 and Sanofi FFr38 or 6 per cent to FFr688. Elf Aquitaine added FFr11 to FFr647 and Total FFr11 to FFr624. The separately listed Synthelabo gained FFr17 to FFr787.

FRANKFURT held on to most of its gains as a stronger dollar and Wall Street provided support. The Xetra Dax index closed up 20.78 at 4,310.83, off a high of 4,322.

Siemens was among the day's best performers, rising DM2.70 to DM110.65 after the company said its power plant business did not expect any negative impact on Asian contracts.

Degussa, the chemicals and metals group, rose 50p to DM98 after announcing positive first-quarter results and a rosy 1997/98 outlook.

The banks were mixed following Monday's announcement that three publicly owned banks were to merge to create Germany's sixth largest bank. Dresdner Bank lost 90p to DM76.80 and Deutsche Bank fell 99p to DM113.80. Commerzbank, however, managed a 54p rise to DM67.08.

AMSTERDAM pushed higher on dollar strength, continued speculation about share buybacks and a bounce for PolyGram.

PolyGram jumped F16 or 5.2 per cent to F1101 following an upgrade from "neu-

tral" to "accumulate" by Merrill Lynch. That coincided with a Dutch press report suggesting strong box-office takings for the group's film distribution arm.

Packaging leader KNP BT continued to gain ground as speculation mounted about an imminent management initiative. A recent note by Credit Lyonnais Laing highlighted the group's potential for radical restructuring and set a target price of F155.

The shares added F11 to F150.50.

ZURICH put in a positive performance and the SMI index finished 57.1 higher at 6,397.5.

Nestlé, a strong performer in recent sessions, continued higher ahead of today's

statement on 1997 sales. The shares picked up SFr49 to SFr2,303, extending their rise since the start of last week to 8.5 per cent.

Analysts expect the company to report sales growth last year of about 16 per cent to SFr700m.

A SFr17 rise in Alusuisse to SFr1,560 was attributed to rumours that Martin Eimer's BZ Bank was buying the stock. Both companies routinely declined to comment.

Against the trend, SMH lost SFr20 to SFr715 as speculation mounted that the Smart car project with Daimler could be scrapped. Daimler denied the story on Monday.

Ciba fell SFr3.50 to SFr169 as its statement that 1997 sales rose by 19 per cent - in line with expectations - was overshadowed by its potential bid for Britain's Allied Colloids.

VIENNA jumped 2.5 per cent, driven by strong demand for banking stocks and utilities. The ATX index finished 31.82 higher at 1,290.28.

Verbund led the advance with a rise of Schiess to Schi.550 on news of further co-operation in the energy sector.

Written and edited by Michael Morgan, Jeffrey Brown, Jonathan Ford and Peter Hall.

São Paulo turns lower

SAO PAULO turned lower at midsession on profit-taking after two consecutive sessions of steep rises, and the Bovespa index traded down 185 or 1.9 per cent at 9,568.

Shares opened higher, helped by modest gains in Asia's battered stock markets, but moved into negative territory as investors decided to take accumulated profits. Among blue chips,

benchmark Telebrás preferred was 2.1 per cent lower at R\$119.

MEXICO CITY was weak at midsession, in spite of the early gains on Wall Street, as investors assessed the impact of a larger-than-expected trade deficit for December, its largest for three years.

The IPC index slipped 68.74 points lower to 4,704.70.

S Africa boosted by banks

Johannesburg moved strongly ahead, helped by a near 2 per cent surge in the banking and financial sector, and supported by bullion's climb back to \$290. The overall index rose 74.1 or 1.3 per cent to 6,012.4.

Among the banks, Absa

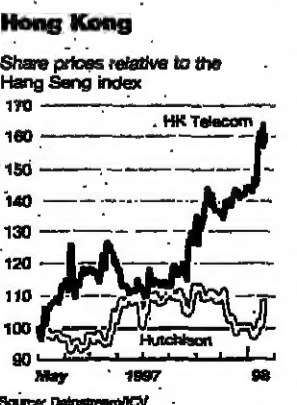
leapt 4.7 per cent to R30 while niche bank Investec added nearly 4 per cent to R186. Foreign demand took Richemont up 5.3 per cent to R54.60, helping the industrial index to put on 69.6 to 7,143.4. Golds rose 22.5 or 2.9 per cent to \$103.

Profits warning slows Tokyo

ASIA PACIFIC

Shares in TOKYO rose for the fifth day running, but the momentum slowed, writes Bethan Button in Tokyo. The Nikkei 225 average added 104.49 at 18,366.53.

Sentiment was positive in the morning as the index rose to 18,430.27 from a low of 18,077.22, but some of the gains were taken back in afternoon trading. The broader-based Topix index ended 1.43 higher at 1,232.89, but the capital-weighted Nikkei 300 slipped 0.17 to 247.86.



Volume fell back to an estimated 570m shares from 680m on Monday. Gainers outnumbered losers by 758 to 403.

The market was depressed by a profits warning from Toshiba, the electronics and computer manufacturer. Toshiba ended 1/4 higher at ¥555, but other electronics stocks fell back. NEC dropped ¥30 to ¥1,490, Hitachi ¥10 to ¥1,010, and Matsushita Electric Industrial ¥10 to ¥1,950.

Softbank, the computer-related publishing company which moved to the first section of the exchange on Friday, continued to advance

signers were said to have remained net buyers, but it was a steady day all round with investors awaiting feedback from the meeting between the finance ministry and the IMF on terms of Thailand's \$17.2bn support package. Share turnover eased to Bt5.2bn from Bt7.2bn on Monday.

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SINGAPORE gave up 23

per cent, unsettled by the uncertain outlook for regional currencies, and with much of the day's activity confined to small capitalisation stocks and Malaysian shares traded over the counter.

The Straits Times Industrials index lost 30.27 at 1,296.91. MBF Capital led the active list and lost 6 cents to 44.5 cents.

JAKARTA ended more than 2 per cent higher after President Suharto confirmed he intended to stand for a seventh term in office. The news eased concern about political uncertainty which had dogged the market.

Banking stocks soared on continuing merger talk. Bank Danamon gained Rp60 to Rp450 on rumours of a deal with an unlisted bank. BII, which signed an outline agreement last week to merge with four other banks, gained Rp25 to Rp525. Bank Panin rose Rp100 to Rp600 and Bank Bali was Rp50 better at Rp600. Overall, the composite index rose 9.01 to 445.04.

WELLINGTON pushed higher on paper stock optimism. The 40 capital index gained 20.72 to 2,267.45.

After refinement of proportion and finish gives the Breguet style timeless appeal. The delicate hand-crafted guilloché engraving on the silver dial was introduced by Breguet around 1786 and requires a level of artistic finesse not found elsewhere.

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